



Aleutians East Borough, Alaska

Basic Financial Statements, Required
Supplementary Information, Supplementary
Information and Single Audit Reports
Year Ended June 30, 2020

Aleutians East Borough, Alaska

Basic Financial Statements, Required Supplementary Information,
Supplementary Information and Single Audit Reports
Year Ended June 30, 2020

Aleutians East Borough, Alaska

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Aleutians East Borough, Alaska

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Independent Auditor's Report

Honorable Mayor and Borough Assembly
Aleutians East Borough, Alaska

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the Aleutians East Borough, Alaska (the Borough), as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the Borough's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

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Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the Aleutians East Borough, Alaska, as of June 30, 2020 , and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the budgetary comparison information on page 52 and the schedules of the Borough's proportionate share of the net pension and OPEB liability or asset and Borough contributions on pages 53-54 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Management has omitted the management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Borough's basic financial statements. The individual fund financial statements and schedules listed in the table of contents and the Schedule of Expenditures of Federal Awards, as required by Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The accompanying Schedule of Expenditures of Federal Awards and the individual fund financial statements and schedules listed in the table of contents are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the accompanying Schedule of Expenditures of Federal Awards and the individual fund financial statements and schedules listed in the table of contents are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated May 20, 2021 on our consideration of the Borough's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Borough's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Borough's internal control over financial reporting and compliance.

BDO USA, LLP

Anchorage, Alaska
May 20, 2021

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Basic Financial Statements

Aleutians East Borough, Alaska

Statement of Net Position

	Primary Government			Component
	Governmental Activities	Business-type Activities	Total	School District
<i>June 30, 2020</i>				
Assets and Deferred Outflows of Resources				
Assets				
Cash and investments	\$ 68,696,128	\$ -	\$ 68,696,128	\$ 4,412,062
Investment in Southwest Governments, LLC	471,711	-	471,711	-
Receivables, net of allowance for uncollectible accounts:				
State of Alaska	53,469	-	53,469	349,613
Accrued interest	56,968	-	56,968	-
Other	148,230	36,542	184,772	-
Taxes	375,883	-	375,883	-
Internal balances	(162,394)	162,394	-	-
Prepaid items	-	8,310	8,310	594,601
Inventory	-	-	-	45,283
Restricted cash and investments:				
Unspent bond proceeds	3,675,489	-	3,675,489	-
Accrued interest	11,145	-	11,145	-
Net other postemployment benefits asset	6,385	-	6,385	218,228
Capital assets not being depreciated	5,521,807	62,898	5,584,705	-
Other capital assets, net of accumulated depreciation	70,313,802	4,633,912	74,947,714	231,942
Total Assets	149,168,623	4,904,056	154,072,679	5,851,729
Deferred Outflows of Resources				
Related to pensions	232,005	-	232,005	313,278
Related to other postemployment benefits	143,128	-	143,128	236,378
Deferred charge on refunding	310,530	-	310,530	-
Total Deferred Outflows of Resources	685,663	-	685,663	549,656
Total Assets and Deferred Outflows of Resources	\$ 149,854,286	\$ 4,904,056	\$ 154,758,342	\$ 6,401,385
Liabilities, Deferred Inflows of Resources and Net Position				
Liabilities				
Accounts payable	\$ 3,984,122	\$ 7,492	\$ 3,991,614	\$ 58,515
Accrued payroll and taxes	-	-	-	66,376
Accrued leave	125,971	-	125,971	71,816
Accrued interest	118,276	-	118,276	-
Unearned revenue	1,371,214	-	1,371,214	14,925
Bonds payable, current	1,595,000	-	1,595,000	-
Bonds payable, noncurrent	19,133,239	-	19,133,239	-
Net pension liability	1,611,440	-	1,611,440	3,481,263
Net other postemployment benefits liability	51,685	-	51,685	46,169
Total Liabilities	27,990,947	7,492	27,998,439	3,739,064
Deferred Inflows of Resources				
Related to pensions	23,856	-	23,856	248,406
Related to other postemployment benefits	51,934	-	51,934	206,038
Total Deferred Inflows of Resources	75,790	-	75,790	454,444
Net Position				
Net investment in capital assets	59,093,389	4,696,810	63,790,199	231,942
Restricted:				
Construction	280,770	-	280,770	-
Trust Fund	42,295,917	-	42,295,917	-
Unrestricted	20,117,473	199,754	20,317,227	1,975,935
Total Net Position	121,787,549	4,896,564	126,684,113	2,207,877
Total Liabilities, Deferred Inflows of Resources and Net Position	\$ 149,854,286	\$ 4,904,056	\$ 154,758,342	\$ 6,401,385

See accompanying notes to financial statements.

Aleutians East Borough, Alaska

Statement of Activities

Statements of Revenues									
Year Ended June 30, 2020	Program Revenues				Net Revenue (Expense) and Changes in Net Position			Component Unit	
	Expenses	Charges for Services	Operating Grants & Contri- butions	Capital Grants & Contri- butions	Primary Government		Total		
					Govern- mental Activities	Business- type Activities		School District	
Primary Government									
Governmental Activities									
General government	\$ 4,175,042	\$ -	\$ 516,392	\$ -	\$ (3,658,650)	\$ -	\$ (3,658,650)		
Infrastructure	4,931,132	-	-	194,664	(4,736,468)	-	(4,736,468)		
Interest on long-term debt	610,525	-	-	-	(610,525)	-	(610,525)		
Total Governmental Activities	9,716,699	-	516,392	194,664	(9,005,643)	-	(9,005,643)		
Business-type Activities									
Terminal	360,320	175,204	-	-	-	(185,116)	(185,116)		
Helicopter	1,013,892	357,572	-	-	-	(656,320)	(656,320)		
Total Business-type Activities	1,374,212	532,776	-	-	-	(841,436)	(841,436)		
Total Primary Government	\$ 11,090,911	\$ 532,776	\$ 516,392	\$ 194,664	(9,005,643)	(841,436)	(9,847,079)		
Component Unit - School District	\$ 8,630,581	\$ 97,969	\$ 627,523					\$ (7,905,089)	
General Revenues									
Borough fish tax					4,714,015	-	4,714,015	-	
Unrestricted investment earnings					288,545	-	288,545	-	
Restricted investment earnings					321,164	-	321,164	-	
Local contributions					-	-	-	1,033,045	
State grants and entitlements not restricted to specific program					2,333,032	-	2,333,032	4,611,846	
Payment in lieu of taxes					668,816	-	668,816	-	
Federal sources					-	-	-	2,262,715	
PERS - on behalf					87,151	-	87,151	70,403	
E-rate					-	-	-	719,280	
Miscellaneous					304,225	-	304,225	35,546	
Transfers					(852,463)	852,463	-	-	
Total General Revenues and Transfers					7,864,485	852,463	8,716,948	8,732,835	
Change in Net Position					(1,141,158)	11,027	(1,130,131)	827,746	
Net Position, beginning					122,928,707	4,885,537	127,814,244	1,380,131	
Net Position, ending					\$ 121,787,549	\$ 4,896,564	\$ 126,684,113	\$ 2,207,877	

See accompanying notes to financial statements.

Aleutians East Borough, Alaska

Exhibit B-1

Balance Sheet - Governmental Funds

	Major Funds				Nonmajor Fund	Total Governmental Funds
	General Fund	Capital Improvements Capital Project	Trust Permanent Fund	Bond Construction Capital Project	King Cove Access Capital Project	
<i>June 30, 2020</i>						
Assets						
Cash and investments	\$ 27,217,765	\$ 1,458,797	\$ 39,738,796	\$ -	\$ 280,770	\$ 68,696,128
Investment in Southwest Governments, LLC	-	-	471,711	-	-	471,711
Receivables, net:						
State of Alaska	53,469	-	-	-	-	53,469
School	1,350	-	-	-	-	1,350
Accrued interest	5,789	-	51,179	-	-	56,968
Taxes	375,883	-	-	-	-	375,883
Other	5,581	141,299	-	-	-	146,880
Due from other funds	-	-	2,034,231	428,993	-	2,463,224
Restricted cash and investments:						
Unspent bond proceeds	-	-	-	3,675,489	-	3,675,489
Accrued interest	-	-	-	11,145	-	11,145
Total Assets	\$ 27,659,837	\$ 1,600,096	\$ 42,295,917	\$ 4,115,627	\$ 280,770	\$ 75,952,247
Liabilities and Fund Balances						
Liabilities						
Accounts payable	\$ 109,509	\$ 79,050	\$ -	\$ 3,795,563	\$ -	\$ 3,984,122
Unearned revenue	-	1,371,214	-	-	-	1,371,214
Due to other funds	2,475,786	149,832	-	-	-	2,625,618
Total Liabilities	2,585,295	1,600,096	-	3,795,563	-	7,980,954
Fund Balances						
Restricted:						
Trust fund	-	-	42,295,917	-	-	42,295,917
King Cove access project funding	-	-	-	-	280,770	280,770
Assigned - capital improvements	-	-	-	320,064	-	320,064
Unassigned	25,074,542	-	-	-	-	25,074,542
Total Fund Balances	25,074,542	-	42,295,917	320,064	280,770	67,971,293
Total Liabilities and Fund Balances	\$ 27,659,837	\$ 1,600,096	\$ 42,295,917	\$ 4,115,627	\$ 280,770	\$ 75,952,247

See accompanying notes to financial statements.

Aleutians East Borough, Alaska
Reconciliation of Governmental Funds Balance Sheet
to Statement of Net Position
June 30, 2020

Amounts reported for governmental activities in the statement of net position are different because:

Total fund balances - All governmental funds		\$ 67,971,293
Capital assets (shown here, net of accumulated depreciation) used in governmental activities are not financial resources and, therefore, are not reported in the funds.		75,835,609
Certain other postemployment benefits (OPEB) plans have been funded in excess of the required contributions. These assets are not financial resources and therefore are not reported in the funds Net other postemployment asset		6,385
Deferred outflows of resources are not financial resources and, therefore, are not reported in the funds:		
Related to pensions	\$ 232,005	
Related to other postemployment benefits	143,128	
Deferred charge on refunding	310,530	
Total deferred outflows of resources	<u>685,663</u>	685,663
Long-term liabilities are not due and payable in the current period and therefore, are not reported in the funds:		
Accrued leave	(125,971)	
Accrued interest on bonds	(118,276)	
Bonds payable, including unamortized premium	(20,728,239)	
Net pension liability	(1,611,440)	
Net other postemployment liability	(51,685)	
Total long-term liabilities	<u>(22,635,611)</u>	(22,635,611)
Deferred inflows of resources are not financial resources and therefore, are not reported in the funds:		
Related to pensions	(23,856)	
Related to other postemployment benefits	(51,934)	
Total deferred inflows of resources	<u>(75,790)</u>	(75,790)
Total Net Position of Governmental Activities		<u>\$ 121,787,549</u>

See accompanying notes to financial statements.

Aleutians East Borough, Alaska
Statement of Revenues, Expenditures and Changes in
Fund Balances - Governmental Funds

	Major Funds						Nonmajor Fund	Total Governmental Funds
	General Fund	Capital Improvements Capital Project	Trust Permanent Fund	Debt Service	Bond Construction Capital Project	Maintenance Reserve Capital Project	King Cove Access Capital Project	
<i>Year Ended June 30, 2020</i>								
Revenues								
Federal government	\$ 668,816	\$ 197,541	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 866,357
State of Alaska	2,718,117	194,664	-	-	-	-	-	2,912,781
Borough raw fish tax	4,714,015	-	-	-	-	-	-	4,714,015
Investment income	190,444	-	321,164	-	98,101	-	-	609,709
Other	212,610	24,456	-	-	67,159	-	-	304,225
Total Revenues	8,504,002	416,661	321,164	-	165,260	-	-	9,407,087
Expenditures								
Current:								
General government	3,710,628	-	42,410	-	-	-	-	3,753,038
Infrastructure	-	1,076,264	-	-	42,410	261,395	-	1,380,069
Debt service	-	-	-	2,482,416	-	-	-	2,482,416
Capital outlay	-	841,890	-	-	-	6,085	-	847,975
Total Expenditures	3,710,628	1,918,154	42,410	2,482,416	42,410	267,480	-	8,463,498
Excess of Revenues Over (Under) Expenditures	4,793,374	(1,501,493)	278,754	(2,482,416)	122,850	(267,480)	-	943,589
Other Financing Sources (Uses)								
Transfers in	5,018,336	1,045,088	-	2,482,416	-	267,480	-	8,813,320
Transfers out	(4,451,304)	-	(5,018,336)	-	-	-	-	(9,469,640)
Net Other Financing Sources (Uses)	567,032	1,045,088	(5,018,336)	2,482,416	-	267,480	-	(656,320)
Net Change in Fund Balances	5,360,406	(456,405)	(4,739,582)	-	122,850	-	-	287,269
Fund Balances, beginning	19,714,136	456,405	47,035,499	-	197,214	-	280,770	67,684,024
Fund Balances, ending	\$ 25,074,542	\$ -	\$ 42,295,917	\$ -	\$ 320,064	\$ -	\$ 280,770	\$ 67,971,293

See accompanying notes to financial statements.

Aleutians East Borough, Alaska
Reconciliation of Changes in Fund Balances
of Governmental Funds to the Statement of Activities
Year Ended June 30, 2020

Net change in fund balances - All governmental funds	\$	287,269
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Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, on the Statement of Activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation expense of \$3,705,289 exceeded capital outlays of \$198,733 in the current period.		(3,506,556)
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The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. Also, governmental funds report the effects of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the Statement of Activities:

Principal repayment	\$ 1,520,000	
Net change in premium and deferred charge on refunding	342,252	
		1,862,252

Some expenses reported in the Statement of Activities do not require the use of current financial resources and therefore, are not reported as expenditures in the governmental funds:

Increase in accrued leave	(45,628)	
Decrease in accrued interest	9,639	
Increase in net pension liability and related deferred outflows and inflows of resources	(91,322)	
Decrease in net other postemployment benefits liability, asset and related deferred outflows and inflows of resources	343,188	
		215,877

Total Change in Net Position of Governmental Activities	\$	(1,141,158)
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See accompanying notes to financial statements.

Aleutians East Borough, Alaska

Statement of Net Position

Enterprise Funds

June 30, 2020	Major Funds		Total
	Terminal	Helicopter	
Assets			
Current Assets			
Prepays	\$ -	\$ 8,310	\$ 8,310
Receivables, net	-	36,542	36,542
Due from other funds	199,754	-	199,754
Total Current Assets	199,754	44,852	244,606
Noncurrent Assets			
Equipment, net of accumulated depreciation	4,696,810	-	4,696,810
Total Assets	\$ 4,896,564	\$ 44,852	\$ 4,941,416
Liabilities and Net Position			
Current Liabilities			
Accounts payable	\$ -	\$ 7,492	\$ 7,492
Due to other funds	-	37,360	37,360
Total Liabilities	-	44,852	44,852
Net Position			
Net investment in capital assets	4,696,810	-	4,696,810
Unrestricted	199,754	-	199,754
Total Net Position	4,896,564	-	4,896,564
Total Liabilities and Net Position	\$ 4,896,564	\$ 44,852	\$ 4,941,416

See accompanying notes to financial statements.

Aleutians East Borough, Alaska
Statement of Revenues, Expenses and Changes in Net Position
Enterprise Funds

<i>Year Ended June 30, 2020</i>	Major Funds		Total
	Terminal	Helicopter	
Operating Revenues	\$ 175,204	\$ 357,572	\$ 532,776
Operating Expenses			
Salaries and benefits	42,884	40,296	83,180
Professional services	-	843,059	843,059
Telephone	3,749	321	4,070
Supplies	17,111	11,206	28,317
Utilities	14,910	-	14,910
Fuel	18,731	119,010	137,741
Maintenance	7,817	-	7,817
Depreciation	255,118	-	255,118
Total Operating Expenses	360,320	1,013,892	1,374,212
Operating Loss	(185,116)	(656,320)	(841,436)
Transfers In	196,143	656,320	852,463
Change in net position	11,027	-	11,027
Net Position, beginning	4,885,537	-	4,885,537
Net Position, ending	\$ 4,896,564	\$ -	\$ 4,896,564

See accompanying notes to financial statements.

Aleutians East Borough, Alaska

Statement of Cash Flows

Enterprise Funds

Year Ended June 30, 2020	Major Funds		Total
	Terminal	Helicopter	
Cash Flows from (for) Operating Activities			
Cash payments from customers	\$ 175,204	\$ 355,753	\$ 530,957
Cash payments for goods and services	(62,318)	(975,084)	(1,037,402)
Cash payments for salaries and benefits	(42,884)	(40,296)	(83,180)
Net cash flows from (for) operating activities	70,002	(659,627)	(589,625)
Cash Flows from (for) Noncapital Financing Activities			
Increase in due to other funds	-	3,307	3,307
Increase in due from other funds	(70,002)	-	(70,002)
Transfer in	-	656,320	656,320
Net cash flows from (for) noncapital financing activities	(70,002)	659,627	589,625
Net Increase in Cash	-	-	-
Cash and Cash Equivalents, beginning	-	-	-
Cash and Cash Equivalents, ending	\$ -	\$ -	\$ -
Reconciliation of Operating Loss to Net Cash Flows from (for) Operating Activities			
Operating loss	\$ (185,116)	\$ (656,320)	\$ (841,436)
Adjustments to reconcile operating loss to net cash flows from (for) operating activities:			
Depreciation	255,118	-	255,118
Changes in operating assets and liabilities that provided (used) cash:			
Receivables, net	-	(1,819)	(1,819)
Accounts payable	-	(1,488)	(1,488)
Net Cash Flows from (for) Operating Activities	\$ 70,002	\$ (659,627)	\$ (589,625)
Noncash Capital and Related Financing Activities			
Capital assets transferred from governmental activities	\$ 196,143	\$ -	\$ 196,143

See accompanying notes to financial statements.

Aleutians East Borough, Alaska
Statement of Fiduciary Assets and Liabilities
Deferred Compensation Agency Fund

Year Ended June 30, 2020

Assets - investments	\$ 440,147
<hr/>	
Liabilities - due to employees	\$ 440,147
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See accompanying notes to financial statements.

Aleutians East Borough, Alaska

Notes to Basic Financial Statements June 30, 2020

1. Summary of Significant Accounting Policies

The financial statements of the Aleutians East Borough (the Borough) have been prepared in conformity with accounting principles generally accepted in the United States of America. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

(a) Reporting Entity

The Aleutians East Borough (Borough) was incorporated October 23, 1987, under the laws of the State of Alaska as a second-class Borough. All significant activities with which the Borough exercises oversight responsibilities have been included in the Borough's general purpose financial statements.

The accompanying financial statements include all activities of the Borough (the primary government) and The Aleutians East Borough School District (School District). The Borough Assembly, as the oversight authority, approves the total annual budget of the School District and also makes annual contributions to it. Based on financial interdependence, budget approval, responsibility for debt, and accountability and control of fiscal matters, The School District is a component unit of the Borough. The School District's audited financial statements may be obtained from their office at the address below:

Aleutians East Borough School District
PO Box 429
Sand Point, Alaska 99661-0429

No other entities exist over which the Borough has oversight responsibility.

(b) Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net position and statement of activities) report information in all nonfiduciary activities of the Borough. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by intergovernmental revenues, are reported separately from business-type activities which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which direct expenses of a given function or segment are offset by program revenues. Direct expenses are those clearly identifiable with a specific function or segment. Program revenues include grants and contributions that are restricted to meeting the operations or capital requirements of a particular function or segment. Other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental fund types. Major individual governmental funds are reported in separate columns in the fund financial statements.

The government-wide financial statements are reported using the economic resources measurement focus and accrual basis of accounting. Revenues are recorded when earned and expenditures are recorded when liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Aleutians East Borough, Alaska

Notes to Basic Financial Statements

(c) Measurement Focus, Basis of Accounting, and Basis of Presentation

The government-wide statements report using the economic resources measurement focus and accrual basis of accounting includes reclassification or elimination of internal activity (between or within funds). Financial statements of Borough component units also report using this same focus and basis of accounting, although internal activity is not eliminated in these statements. Revenues are recorded when earned, and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

The governmental fund financial statements report used the current financial resources measurement focus and modified accrual basis of accounting. Revenues are recognized when they are both measurable and available. Available means collectible within the current period or soon enough thereafter to pay current liabilities. The Borough considers revenues to be available if they are collected within 180 days of the end of the fiscal year. Expenditures are recorded when the related fund liability is incurred.

Major revenue sources susceptible to accrual include intergovernmental revenues and investment income. In general, other revenues are recognized when cash is received.

When both restricted and unrestricted resources are available for use, it is the Borough's policy to use restricted resources first, then unrestricted resources as needed.

(d) Fund Types and Major Funds

The Borough reports the following major governmental funds:

- General Fund - Reports as the primary fund of the Borough. This fund is used to account for all financial resources not reported in other funds.
- Capital Improvements Capital Project Fund - Accounts for all revenue received and expenditures made for the development and administration of capital projects.
- Trust Permanent Fund - Accounts for all investment activity, deposits and disbursements related to the permanent fund established by the assembly. The Borough Assembly may, in any fiscal year, appropriate an amount not to exceed four percent (4%) of the five-year average fund market value, to be computed using the five prior calendar years market value, additional income is added to the fund. The fund corpus is to be held in perpetuity except in circumstances of natural disaster or financial emergency.
- Debt Service Fund - Accounts for all expenditures made for the retirement of and interest on debt.
- Bond Construction Capital Project Fund - Accounts for all expenditures made on projects funded by bond proceeds.
- Maintenance Reserve Capital Project Fund - Accounts for all expenditures made on maintenance-related projects. The Borough has elected to report this fund as major given significance to the users of the financial statements.

Aleutians East Borough, Alaska

Notes to Basic Financial Statements

The Borough reports the following major proprietary funds:

- Terminal Enterprise Fund - Accounts for all activity associated with construction, operation, and maintenance of the airport terminal located in Cold Bay.
- Helicopter Enterprise Fund - Accounts for all activity associated with helicopter operations in Akutan.

The Borough reports the following fiduciary fund:

- Deferred Compensation Agency Fund - Accounts for the Borough's employee retirement plan.

(e) Budgetary Information

The Borough Assembly is required to approve an annual budget before the start of the new fiscal year. Public hearings are conducted to obtain taxpayer comments. The budget is legally enacted through passage of an ordinance. Budgets are prepared and presented on the modified accrual basis of accounting. Any revisions to the budget must be approved by passage of an ordinance by the Assembly. The Borough Assembly authorizes formal budget revisions several times each year to adjust revenues and expenditures to available resources and program needs. The final revised and approved budget is presented in these financial statements.

(f) Assets and Liabilities

Cash and Investments

The Borough's cash and cash equivalents are considered to be cash on hand, demand deposits, certificates of deposits, and short-term investments with original maturities of 3 months or less from the date of acquisition.

Investments are stated at fair value. Investments of all funds outside of the Permanent Fund are managed within the Borough's central treasury.

Investments in Southwest Governments, LLC

The Borough's investment in Southwest Governments, LLC is accounted for under the equity method. Under the equity method, original investments are recorded at cost and adjusted by the Borough's share of undistributed earnings or losses. The Borough would recognize an impairment loss when there is a loss in value in the equity method investment which is other than a temporary decline.

Receivables

All receivables are shown net of an allowance for uncollectible accounts.

Aleutians East Borough, Alaska

Notes to Basic Financial Statements

Interfund Receivables and Payables

All outstanding balances between funds are reported as “due to/from other funds.” These balances represent the numerous transactions that occur during the course of operations between individual funds for goods provided or services rendered. All amounts due to/from other funds are short-term in nature.

Prepaid Items

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both the government-wide and fund financial statements.

Capital Assets

The Borough’s property, plant, equipment, and infrastructure with useful lives of more than 1 year are stated at historical cost and comprehensively reported in government-wide financial statements. The Borough maintains infrastructure asset records consistent with all other capital assets. Component unit capital assets are also reported in their respective fund and combining component unit financial statements. Donated assets are recorded at the acquisition value. Acquisition value is the price that would be paid to acquire an asset with equivalent service potential in an orderly market transaction at the acquisition date. The Borough generally capitalizes assets with a cost of \$5,000 or more as purchase and construction outlays occur.

Costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets’ lives are not capitalized. Capital assets, including those of component units, are depreciated using the straight-line method. When capital assets are disposed, the cost and applicable accumulated depreciation are removed from the respective accounts, and the resulting gain or loss is recorded in operations.

Estimated useful lives in years for depreciable assets are as follows:

Buildings and improvements	25 years
Infrastructure	30 years
Furniture, vehicles and equipment	3-7 years

Accrued Leave

It is the Borough’s policy to permit employees to accumulate earned but unused annual leave. Compensated absences are reported as accrued in government-wide and component unit financial statements. Governmental funds report only matured accrued leave payable to currently terminated employees and are included in wages and benefits payable.

Unearned Revenue

Amounts for which asset recognition criteria have been met but for which revenue recognition criteria have not been met are recorded as unearned revenue.

Aleutians East Borough, Alaska

Notes to Basic Financial Statements

Long-term Debt

In government-wide and component unit financial statements, outstanding debt is reported as liabilities. Governmental fund financial statements recognize proceeds of debt and premiums as other financing sources of the current period.

(g) Pensions and Other Postemployment Benefits (OPEB)

For purposes of measuring the net pension and OPEB liabilities, deferred outflows of resources and deferred inflows of resources related to pensions and OPEB, and pension and OPEB expense, information about the fiduciary net position of the Public Employees' Retirement System (PERS) and additions to/from PERS fiduciary net position have been determined on the same basis as they are reported by PERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

(h) Deferred Outflows of Resources and Deferred Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. Generally, the Borough reports deferred charges on bond refunding and pension and OPEB related items as deferred outflows of resources. These items are amortized to expense over time.

In addition to the liabilities, the financial statements may also present deferred inflows of resources. Deferred inflows of resources represent an acquisition of net position that applies to a future period and will not be recognized until later. The Borough reports certain pension and OPEB related items as deferred inflows of resources. These items are amortized as a reduction of expense over varying periods of time based on their nature.

(i) Equity

Fund Balances

In the fund financial statements, governmental funds report aggregate amounts for five classifications of fund balances based on the constraints imposed on the use of these resources. The nonspendable fund balance classification includes amounts that cannot be spent because they are either (a) not in spendable form - prepaid items or inventories; or (b) legally or contractually required to be maintained intact. The spendable portion of the fund balances comprises the remaining four classifications: restricted, committed, assigned, and unassigned.

Restricted

Reflects funds with externally imposed constraints placed on them by either creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments; or imposed by law through constitutional provisions or enabling legislation.

Aleutians East Borough, Alaska

Notes to Basic Financial Statements

Committed

These amounts can only be used for specific purposes pursuant to constraints imposed by formal resolutions or ordinances of the Assembly. This classification also includes contractual obligations to the extent that existing resources in the fund have been specifically committed for use in satisfying those requirements. Committed amounts cannot be used for any other purpose unless the Borough Assembly removes the constraint through a subsequent formal modification or rescinding action.

Assigned

This classification reflects the amounts constrained by the Borough's assembly members "intent" to be used for specific purposes, but are neither restricted nor committed. When Assigned fund balances include all remaining amounts (except negative balances) that are reported in governmental funds, other than the General Fund, that are not classified as nonspendable and are neither restricted nor committed.

Unassigned

This fund balance is the residual classification for the General Fund. It is also used to report negative fund balances in other governmental funds. When restricted, committed or assigned resources as well as unassigned resources are available for use, it is the Borough's policy to use restricted, committed, or assigned resources first, then unassigned resources as needed.

(j) Net Position

In the government-wide and proprietary fund financial statements, equity is displayed in three components as follows:

Net Investment in Capital Assets

This consists of capital assets, net of accumulated depreciation, less the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.

Restricted

This consists of net position that is legally restricted by outside parties or by law through constitutional provisions or enabling legislation.

Unrestricted

This consists of net position that does not meet the definition of restricted or net investment in capital assets. When both restricted and unrestricted resources are available for use, it is the Borough's policy to use restricted resources first, then unrestricted resources as needed.

Aleutians East Borough, Alaska

Notes to Basic Financial Statements

(k) Use of Estimates

Preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

(l) Revenues, Expenditures and Expenses

Grants and Other Intergovernmental Revenues

In applying the measurable and available concept to grants and intergovernmental revenues, legal and contractual requirements of the numerous individual programs are used as guidance. There are, however, essentially two types of these revenues. In one, monies must be expended on the specific purpose or project before any amounts are considered "earned"; therefore, revenues are recognized based on expenditures recorded. In the other, monies are virtually unrestricted as to purpose of expenditure and are usually revocable only for failure to comply with prescribed compliance requirements. These resources are reflected as revenues at the time of receipt or earlier if the measurable and available criteria are met.

2. Cash and Investments

The Borough utilizes a central treasury that is available for use by all funds. Each fund's portion of the central treasury is displayed on the balance sheet in each fund as "cash and investments."

Reconciliation of Deposit and Investment Balances

The following is a reconciliation of the Borough's deposit and investment balances to the financial statements as of June 30, 2020.

	Book Balance	Bank Balance
Bank deposits and petty cash	\$ 2,084,616	\$ 2,655,205
Investments	70,287,001	70,287,001
Total	\$ 72,371,617	\$ 72,942,206
Cash and investments	\$ 68,696,128	
Restricted cash and investments-		
Unspent bond proceeds	3,675,489	
Total	\$ 72,371,617	

Aleutians East Borough, Alaska

Notes to Basic Financial Statements

Cash and investments are further categorized as follows:

	Bank Deposits and Petty Cash	Investments	Total
Unrestricted cash and investments	\$ 2,084,616	\$ 26,872,716	\$ 28,957,332
Restricted cash and investments	-	3,675,489	3,675,489
General cash and investments	2,084,616	30,548,205	32,632,821
Permanent fund	-	39,738,796	39,738,796
Total Cash and Investments	\$ 2,084,616	\$ 70,287,001	\$ 72,371,617

General Investments

Investment Policy

The investment policy for funds other than the Permanent Fund authorizes the Borough to invest only in the following instruments: U.S. Treasury securities; other obligations guaranteed by the U.S. government or its agencies or instrumentalities; repurchase agreements with financial institutions; certificates of deposits and other deposits at banks and savings and loan associations (collateralized); uncollateralized deposits at banks and savings and loan associations to the extent that the deposits are insured by the Federal Deposit Insurance Corporation or the Federal Savings and Loan Insurance Corporation; bonds and notes issued by any state or political subdivision thereof graded A or high by Moody's Investor's Service, Inc. or Standard and Poor's Corporation; prime commercial paper graded A1 or higher by Moody's Investor's Service, Inc. or P1 or higher by Standard and Poor's Corporation; obligations of corporations graded "Baa" or higher by Moody's Investor's Service, Inc. or Standard and Poor's Corporation and issued in the United States and denominated in US dollars; the Alaska Municipal League Investment Pool (AMLIP); income producing real estate investments.

General investment balances and maturities at June 30, 2020 are as follows:

Investment Type	Fair Value	Investment Maturities (in years)	
		Less than 1	1-5
Money market funds	\$ 1,073,461	\$ -	\$ -
U.S. treasuries	6,319,870	5,840,047	479,823
Local government investment pool (AMLIP)	23,154,874	-	-
Total General Investments	\$ 30,548,205	\$ 5,840,047	\$ 479,823

Fair Value Measurement

The Borough categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

Aleutians East Borough, Alaska

Notes to Basic Financial Statements

The Borough has the following recurring fair value measurements as of June 30, 2020:

U.S. treasury securities of \$6,319,870 are valued using models with various inputs such as but not limited to daily cash flow, snapshots of market indices and spread scales (Level 2 inputs).

The Borough has investments in money market funds totaling \$1,073,461 that are not held at fair value, but instead recorded at amortized cost, as of June 30, 2020. The Borough's investment in AMLIP of \$23,154,874 is measured at net asset value, as of June 30, 2020. Management believes these values approximate fair value.

Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the duration of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The Borough has no formal policy relating to interest rate risk.

Credit Risk

Money market funds are subject to credit risk because of the repurchase and sale agreement features within the money market demand deposit cash accounts.

The Borough's investments in U.S. treasury bonds are rated AA+ by Standard and Poor's. The AMLIP is an external investment pool and is rated AAAm for credit risk purposes. Alaska Statute 37.23 establishes regulatory oversight of the Pool. The law sets forth numerous requirements regarding authorized investments and reporting. The Pool is incorporated in the State of Alaska as a nonprofit corporation and reports to a board of directors. Alaska Statute 37.23.050 requires the retention of an investment manager. The manager is required to produce monthly disclosure statements on the Pool. The Pool also has retained an investment adviser who monitors the performance of the investment manager to ensure compliance with investment policies. All participation in the Pool is voluntary. The Pool must maintain a dollar-weighted average maturity of 90 days or less, and only purchase instruments having remaining maturities of 397 days or less. On a monthly basis, the investments in the Pool are reviewed for fair value by an independent pricing service. As of June 30, 2020, the fair value of the investments in the Pool approximates amortized cost and is equal to the value of Pool shares.

Separately issued financial statements for AMLIP may be obtained by contacting the sponsor at 212 Second Street, Suite 200, Juneau, AK 99801. A portion of the general cash pool represents bond proceeds and is subject to arbitrage yield restrictions.

Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates will adversely impact the fair value of an investment. As of June 30, 2020, the Borough did not have any investments in international debt obligations or equity mutual funds and was therefore not subject to Foreign Currency Risk.

Custodial Credit Risk - Deposits

In the case of deposits, this is the risk that in the event of a bank failure, the Borough's deposits may not be returned to it. The Borough's deposit policy for custodial credit risk is to collateralize its primary demand deposit account. As of June 30, 2020, the Borough had no bank deposits that were not insured or collateralized.

Aleutians East Borough, Alaska

Notes to Basic Financial Statements

Custodial Credit Risk - Investments

For an investment, this is the risk that, in the event of the failure of the counterparty, the Borough will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Borough has no debt securities exposed to custodial credit risk at June 30, 2020 because the investments were held by a custodian in the name of the Borough.

Permanent Fund Investments

The Permanent Fund is reporting \$39,738,796 in cash and investments at June 30, 2020.

Investment Policy

The investment policy for the Permanent Fund authorizes the Borough to invest in domestic (U.S.) equities (both large cap and mid cap), international equities, emerging market equities, real estate investment trusts, and fixed income investments. For 2020, the target allocation was 24% U.S. equities (large cap), 7% U.S. equities (mid-cap), 3% U.S. equities (small-cap), 12% international equities, 5% emerging market equities, 5% real estate investment trusts, 5% infrastructure, 5% commodities, 19% U.S. fixed income, 10% U.S. TIPS, and 5% cash. A range of 18-30% for U.S. equities (large cap), 2-12% for U.S. equities (mid-cap), 0-6% for U.S. equities (small-cap), 6-18% international equities, 0-10% emerging market equities, 0-10% real estate investment trusts, 0-10% infrastructure, 0-10% commodities, 10-30% U.S. fixed income, 0-15% U.S. TIPS, and 0-10% cash are allowed to accommodate normal market fluctuations and prevent frequent rebalancing.

Interest Rate Risk

Because the Permanent Fund is designed to hold principal investments perpetually in trust for the future earnings to benefit the present and future generations of Borough residents, there are no maturity limitations in the policy. The policy focuses more on limiting interest rate risk by diversification in many investment types. A segmented time distribution of all investment types is presented below in an effort to disclose those investment types and amounts that are subject to interest rate risk.

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Aleutians East Borough, Alaska

Notes to Basic Financial Statements

Permanent Fund investment balances and maturities at June 30, 2020 are as follows:

<i>Investment type</i>	Fair Value	Investment Maturities (in years)			
		Less than 1	1-5	6-10	More than 10
U.S. treasuries	\$ 4,474,910	\$ -	\$ 3,041,568	\$ 1,353,564	\$ 79,778
U.S. TIPS	3,936,589	-	3,936,589	-	-
U.S. agencies	79,414	-	-	79,414	-
Mortgage backed securities	502,534	-	-	99,926	402,608
Corporate bonds	2,725,675	-	2,115,385	610,290	-
Total	11,719,122	\$ -	\$ 9,093,542	\$ 2,143,194	\$ 482,386
U.S. equities (large cap)	9,911,278				
U.S. equities (mid cap)	2,761,545				
U.S. equities (small cap)	1,212,148				
International equities	4,785,905				
Emerging market equities	2,065,840				
Real estate investment trusts	1,797,159				
Infrastructure	1,941,397				
Commodities	1,404,998				
Money market funds	2,139,404				
Total Permanent Fund	\$ 39,738,796				

As of June 30, 2020, an actual asset allocation to target allocation is presented below. All categories fell within the allowable range at June 30, 2020.

<i>Investment Class</i>	Actual \$	Actual vs. Target Allocation			% out of Policy Range
		% Actual	% Target	% Difference	
U.S. equities (large cap)	\$ 9,911,278	24.94%	24%	0.94%	n/a
U.S. equities (mid cap)	2,761,545	6.95%	7%	-0.05%	n/a
U.S. equities (small cap)	1,212,148	3.05%	3%	0.05%	n/a
International equities	4,785,905	12.04%	12%	0.04%	n/a
Emerging market equities	2,065,840	5.20%	5%	0.20%	n/a
Real estate investment trusts	1,797,159	4.52%	5%	-0.48%	n/a
Infrastructure	1,941,397	4.89%	5%	-0.11%	n/a
Commodities	1,404,998	3.54%	5%	-1.46%	n/a
U.S. fixed income	7,782,533	19.58%	19%	0.58%	n/a
U.S. TIPS	3,936,589	9.91%	10%	-0.09%	n/a
Money market funds	2,139,404	5.38%	5%	0.38%	n/a
Total	\$ 39,738,796	100.00%	100%	0.00%	n/a

Aleutians East Borough, Alaska

Notes to Basic Financial Statements

Fair Value Measurement

The Borough categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

The Borough has the following recurring fair value measurements as of June 30, 2020:

Investments are classified in the fair value hierarchy as follows:

<i>Investments by Fair Value Level</i>	Fair Value	Level 1	Level 2
U.S. treasuries	\$ 4,474,910	\$ -	\$ 4,474,910
U.S. TIPS	3,936,589	-	3,936,589
U.S. agencies	79,414	-	79,414
Mortgage backed securities	502,534	-	502,534
Corporate bonds	2,725,675	-	2,725,675
U.S. equities (large cap)	9,911,278	9,911,278	-
U.S. equities (mid cap)	2,761,545	2,761,545	-
U.S. equities (small cap)	1,212,148	1,212,148	-
International equities	4,785,905	4,785,905	-
Emerging market equities	2,065,840	2,065,840	-
Real estate investment trusts	1,797,159	1,797,159	-
Infrastructure	1,941,397	1,941,397	-
Commodities	1,404,998	1,404,998	-
Total Investments by Fair Value Level	37,599,392	\$ 25,880,270	\$ 11,719,122
<i>Investments Measured at Amortized Cost -</i>			
Money market funds	2,139,404		
Total Investments	\$ 39,738,796		

The Permanent Fund's investments classified as Level 1 of the fair value hierarchy are valued using prices quoted in active markets for those securities. Investments classified as Level 2 of the fair value hierarchy are valued using models with various inputs such as but not limited to daily cash flow, snapshots of market indices and spread scales.

The Borough's investments in infrastructure and commodities asset classes are held in exchange-traded funds.

The Borough has investments in money market funds totaling \$2,139,404 that are not held at fair value but are instead recorded at amortized cost as of June 30, 2020.

Aleutians East Borough, Alaska

Notes to Basic Financial Statements

Credit Risk

Investment Type	Fair Value	Credit Quality Ratings		
		Moody's		Not Rated
		Aaa to A3	Baa1 to Baa3	
U.S. treasuries	\$ 4,474,910	\$ 4,474,910	\$ -	\$ -
U.S. TIPS	3,936,589	3,936,589	-	-
U.S. agencies	79,414	79,414	-	-
Mortgage backed securities	502,534	502,534	-	-
Corporate bonds	2,725,675	2,104,077	461,264	160,334
Investments not subject to credit risk	28,019,674	-	-	-
Total Investments	\$ 39,738,796	\$ 11,097,524	\$ 461,264	\$ 160,334

The Permanent Fund policies specifically limit the types of investments that can be purchased in an effort to limit credit risk. The policies allow for the investment in U.S. treasuries and U.S. agencies and obligations guaranteed by the U.S. government or its agencies and instrumentalities. The policies limit corporate bonds to those investments graded "Baa" or higher by Moody's Investor's Service Inc. or Standard and Poor's Corporation and issued in the United States and denominated in U.S. dollars. Not more than 15% of the fixed income portfolio may be held in Baa rated securities.

Concentration of Credit Risk

The Permanent Fund aims to diversify and limit concentration investment risk by investing in a variety of issuers and fixed income securities; however, the Permanent Fund has no formal policy addressing concentration of credit risk.

Foreign Currency Risk

As of June 30, 2020, a total of \$6,851,745 (17.24%) of the total fund value is invested in international and emerging market equities that are considered subject to foreign currency risk. Such investments are held in dollar-denominated exchange-traded funds or index mutual funds, which are broadly diversified across currencies, which effectively limits the foreign currency risk; however, the Permanent Fund has no formal policy addressing foreign currency risk.

Custodial Credit Risk

This is the risk that, in the event of the failure of the counterparty, the Borough will not be able to recover the value of its investments that are in the possession of an outside party. The Borough has no investments exposed to custodial credit risk at June 30, 2020 because the investments were held by a custodian in the name of the Borough.

Aleutians East Borough, Alaska

Notes to Basic Financial Statements

3. Investments in Southwest Governments, LLC

The Borough has an interest in Southwest Governments, LLC. The partnership was formed by the City of Akutan (40%), the City of Sand Point (20%), the City of King Cove (10%), and the Borough (30%). The Borough leases office space from the partnership. There were no payments to the partnership for the year. The Borough's share of the partnership's net income in 2020 was \$35,189. This amount was recorded as other income in the General Fund. The balance of the Borough's ownership at June 30, 2020 was \$471,711.

4. Capital Assets

Capital asset activity for the year ended June 30, 2020 is as follows:

Governmental Activities	Balance June 30, 2019	Additions	Deletions	Balance June 30, 2020
Capital assets not being depreciated				
Land	\$ 5,323,074	\$ 120,214	\$ -	\$ 5,443,288
Construction in progress	-	141,417	(62,898)	78,519
Total capital assets not being depreciated	5,323,074	261,631	(62,898)	5,521,807
Capital assets being depreciated:				
Buildings and improvements	46,356,899	133,245	(133,245)	46,356,899
Infrastructure	100,480,606	-	-	100,480,606
Furniture and equipment	283,498	-	(44,748)	238,750
Vehicles	407,301	-	-	407,301
Total capital assets being depreciated	147,528,304	133,245	(177,993)	147,483,556
Less accumulated depreciation	73,509,213	3,705,289	(44,748)	77,169,754
Total capital assets being depreciated, net	74,019,091	(3,572,044)	(133,245)	70,313,802
Governmental Activities Capital Assets, net	\$ 79,342,165	\$ (3,310,413)	\$ (196,143)	\$ 75,835,609

Aleutians East Borough, Alaska

Notes to Basic Financial Statements

Business-type Activities	Balance June 30, 2019	Additions	Deletions	Balance June 30, 2020
Capital assets not being depreciated - construction in progress	\$ -	\$ 62,898	\$ -	\$ 62,898
Capital assets being depreciated:				
Terminal	7,403,571	133,245	-	7,536,816
Helicopter	97,554	-	-	97,554
Total capital assets being depreciated	7,501,125	133,245	-	7,634,370
Less accumulated depreciation	2,745,340	255,118	-	3,000,458
Total capital assets being depreciated, net	4,755,785	(121,873)		4,633,912
Business-type Activities				
Capital Assets, net	\$ 4,755,785	\$ (58,975)	\$ -	\$ 4,696,810

Depreciation expense was charged to the functions as follows for the year ended June 30, 2020:

Governmental Activities

General government	\$ 607,325
Infrastructure	3,097,964

Total Depreciation Expense - Governmental Activities	\$ 3,705,289
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Business-type Activities

Terminal	\$ 255,118
Helicopter	-

Total Depreciation Expense - Business-type Activities	\$ 255,118
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Aleutians East Borough, Alaska

Notes to Basic Financial Statements

5. Interfund Receivables, Payables and Transfers

Interfund receivables and payables are shown as “due from other funds” and “due to other funds” in each individual fund. These balances at June 30, 2020, were as follows:

	Due from Other Funds	Due to Other Funds
Governmental Funds:		
General Fund	\$ -	\$ 2,475,786
Capital Improvements Capital Project Fund	-	149,832
Trust Permanent Fund	2,034,231	-
Bond Construction Capital Project Fund	428,993	-
Total Governmental Funds	2,463,224	2,625,618
Enterprise Funds:		
Terminal	199,754	-
Helicopter	-	37,360
Total Interfund Balances	\$ 2,662,978	\$ 2,662,978

A schedule of interfund transfers for the year ended June 30, 2020, follows:

From the General Fund to:	
Capital Improvements Capital Project Fund for capital projects and acquisitions	\$ 1,045,088
Debt Service Fund for debt service	2,482,416
Maintenance Reserve Capital Project Fund for capital projects and acquisitions	267,480
Helicopter Enterprise Fund for operating subsidy	656,320
Total Transfers from the General Fund	4,451,304
From the Trust Permanent fund to the General Fund for investments	5,018,336
Total Transfers to Other Funds	\$ 9,469,640

In addition to the transfers noted above, the Borough transferred capital assets with a book value of \$196,143 from governmental activities into the Terminal Enterprise Fund.

6. Operating Leases

The Borough has leased to third-parties commercial space in the Cold Bay Terminal Building. The Leases are long-term and allow the lessee(s) to use the leased space for commercial purposes tied to the Cold Bay Terminal Building. There are no minimum guarantees for any of the leases. Future minimum lease payments scheduled for these agreements are as follows:

<i>Year Ending June 30,</i>	Total
2021	\$ 259,401
2022	259,401
2023	259,401
2024	259,401
2025	259,041
2026-2029	195,000
	\$ 1,491,645

Aleutians East Borough, Alaska

Notes to Basic Financial Statements

7. Long-term Debt

Following is a summary of general obligation bond transactions of the Borough for the year ended June 30, 2020:

Governmental Activities	Balance June 30, 2019	Additions	Reductions	Balance June 30, 2020	Due Within One Year
Bonds Payable:					
General Obligation bonds	\$ 20,450,000	\$ -	\$ (1,520,000)	\$ 18,930,000	\$ 1,595,000
Issuance premiums	2,177,025	-	(378,786)	1,798,239	-
Total bonds payable	22,627,025	-	(1,898,786)	20,728,239	1,595,000
Accrued leave	80,343	125,971	(80,343)	125,971	125,971
Total Governmental Activities	\$ 22,707,368	\$ 125,971	\$ (1,979,129)	\$ 20,854,210	\$ 1,720,971

For governmental activities, accrued leave is generally liquidated by the General Fund.

General obligation bonds payable at June 30, 2020, are comprised of the following:

\$4,900,000 - 2010 Series A&B for Akutan Airport and King Cove Access Project, due in annual installments ranging from \$240,000 to \$320,000 through October 1, 2031; interest rate is variable from 2.0 to 5.4 percent	\$ 3,070,000
\$3,450,000 - 2011 Refunding series three for Aleutians East Borough bonds, due in annual installments ranging from \$215,000 to \$225,000 through September 2021; interest rate is variable from 2.0 to 5.0 percent	440,000
\$2,205,000 - 2015 Refunding series one for Aleutians East Borough bonds, due in annual installments ranging from \$205,000 to \$245,000 through October 1, 2025; interest rate is variable from 2.0 to 5.0 percent	1,030,000
\$17,155,000 - 2016 Refunding series three for refinancing of 2007 refunding bonds, due in annual installments ranging from \$935,000 to \$2,155,000 through December 1, 2028; interest rate is variable from 3.75 to 5.0 percent	14,390,000
Total bonds payable	\$ 18,930,000

Aleutians East Borough, Alaska

Notes to Basic Financial Statements

Annual required installments on all Borough general obligation bonds as of June 30 are as follows:

<i>Year Ending June 30,</i>	Principal	Interest	Total
2021	\$ 1,595,000	\$ 897,493	\$ 2,492,493
2022	1,685,000	825,302	2,510,302
2023	1,805,000	743,191	2,548,191
2024	1,945,000	649,636	2,594,636
2025	2,060,000	549,712	2,609,712
2026-2030	9,520,000	1,116,152	10,636,152
2031	320,000	8,691	328,691
	<hr/>	<hr/>	<hr/>
	\$ 18,930,000	\$ 4,790,177	\$ 23,720,177

8. Retirement Plans

General Information About the Plan

The Borough participates in the Alaska Public Employees' Retirement System (PERS). PERS is a cost-sharing multiple employer plan which covers eligible State and local government employees, other than teachers. The Plan was established and is administered by the State of Alaska Department of Administration. Benefit and contribution provisions are established by State law and may be amended only by the State Legislature.

The Plan is included in a comprehensive annual financial report that includes financial statements and other required supplemental information. That report is available via the internet at <http://doa.alaska.gov/drb/pers>. Actuarial valuation reports, audited financial statements, and other detailed plan information are also available on this website.

The Plan provides for retirement, death and disability, and postemployment healthcare benefits. There are three tiers of employees, based on entry date. For all tiers within the Defined Benefit (DB) plan, full retirement benefits are generally calculated using a formula comprised of a multiplier times the average monthly salary (AMS) times the number of years of service. The multiplier is increased at longevity milestone markers for most employees. Police/Fire employees accrue benefits at an accelerated rate. The tiers within the Plan establish differing criteria regarding normal retirement age, early retirement age, and the criteria for calculation of AMS, COLA adjustments, and other postemployment benefits (OPEB). A complete benefit comparison chart is available at the website noted above.

Aleutians East Borough, Alaska

Notes to Basic Financial Statements

(a) Defined Benefit (DB) Pension Plan

The PERS DB Plan was closed to new entrants effective July 1, 2006. New employees hired after that date participate in the PERS Defined Contribution (DC) Plan described later in these notes.

Historical Context and Special Funding Situation

In April 2008, the Alaska Legislature passed legislation converting the previously existing PERS plan from a DB agent-multiple employer plan to a DB cost-sharing plan with an effective date of July 1, 2008. In connection with this conversion, the State of Alaska passed additional legislation which statutorily capped the employer contribution rate, established a state funded “on-behalf” contribution (subject to funding availability), and required that employer contributions be calculated against all PERS eligible wages, including wages paid to participants of the PERS Tier IV defined contribution plan described later in these notes. The Alaska Legislature has the power and authority to change the aforementioned statute through the legislative process.

Alaska Statute 39.35.280 requires the State of Alaska to contribute to the Plan an amount such that, when combined with the employer contribution, is sufficient to pay the Plan’s past service liability contribution rate as adopted by the Alaska Retirement Management Board (ARM Board). As such, the Plan is considered to be in a special funding situation as defined by GASB, and management has recorded all pension related liabilities, deferred inflows/outflows of resources, and disclosures on this basis.

Employee Contribution Rates

Regular employees are required to contribute 6.75% of their annual covered salary. Police officers and firefighters are required to contribute 7.50% of their annual covered salary.

Employer and Other Contribution Rates

There are several contribution rates associated with the pension contributions and related liabilities. These amounts are calculated on an annual basis.

Employer Effective Rate: This is the contractual employer pay-in rate. Under current legislation, the amount calculated for the statutory employer effective contribution rate is 22% on eligible wages. This 22% rate is calculated on all PERS participating wages, including those wages attributable to employees in the DC plan. Contributions derived from the DC employee payroll is referred to as the Defined Benefit Unfunded Liability or DBUL contribution.

ARM Board Adopted Rate: This is the rate formally adopted by the Alaska Retirement Management Board. This rate is actuarially determined and used to calculate annual Plan funding requirements, without regard to the statutory rate cap or the GASB accounting rate. Effective July 1, 2015, the Legislature requires the ARM Board to adopt employer contribution rates for past service liabilities using a level percent of pay method over a closed 25-year term which ends in 2039.

Aleutians East Borough, Alaska

Notes to Basic Financial Statements

State Contribution Rate: This is the rate paid in by the State as an on-behalf payment under the current statute. The statute requires the State to contribute, based on funding availability, an on-behalf amount equal to the difference between the ARM Board Rate and the Employer Effective Rate. In the governmental fund financial statements, on-behalf contribution amounts have been recognized as additional revenues and expenditures. In the proprietary funds and government-wide financial statements, the on-behalf amounts reflect revenue and expense only during the measurement period in which the Plan recognizes the payments, resulting in a significant timing difference between the cash transfers and revenue and expense recognition.

Contribution rates for the year ended June 30, 2020 were determined in the June 30, 2017 actuarial valuations. The Borough's contribution rates for the 2020 fiscal year were as follows:

	Employer Effective Rate	ARM Board Adopted Rate	State Contribution Rate
Pension	15.72%	23.73%	6.62%
Postemployment healthcare (ARHCT)	6.28%	4.89%	0.00%
Total Contribution Rates	22.00%	28.62%	6.62%

In 2020, the Borough was credited with the following contributions to the pension plan.

	Measurement Period July 1, 2018 to June 30, 2019	Borough Fiscal Year July 1, 2019 to June 30, 2020
Employer contributions (including DBUL)	\$ 156,444	\$ 145,741
Nonemployer contributions (on-behalf)	55,098	66,234
Total Contributions	\$ 211,542	\$ 211,975

In addition, employee contributions to the Plan totaled \$35,230 during the Borough's fiscal year.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At June 30, 2020, the Borough reported a liability for its proportionate share of the net pension liability (NPL) that reflected a reduction for State pension support provided to the Borough. The amount recognized by the Borough for its proportional share, the related State proportion, and the total portion of the net pension liability that was associated with the Borough were as follows:

Borough proportionate share of NPL	\$ 1,611,440
State's proportionate share of NPL associated with the Borough	641,549
Total Net Pension Liability	\$ 2,252,989

Aleutians East Borough, Alaska

Notes to Basic Financial Statements

The total pension liability for the June 30, 2019 measurement date was determined by an actuarial valuation as of June 30, 2018 rolled forward to June 30, 2019 to calculate the net pension liability as of that date. The Borough's proportion of the net pension liability is based on the ratio of the present value of projected future contributions for each employer to the present value of projected future contributions to the Plan for the fiscal years 2020 to 2039. At the June 30, 2019 measurement date, the Borough's proportion was 0.02944 percent, which was an increase of 0.000182 percent from its proportion measured as of June 30, 2018.

For the year ended June 30, 2020, the Borough recognized pension expense of \$469,105 and on-behalf revenue of \$87,151 for support provided by the State. At June 30, 2020, the Borough reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ -	\$ (23,856)
Changes in assumptions	49,335	-
Net difference between projected and actual earnings on pension plan investments	23,105	-
Changes in proportion and differences between Borough contributions and proportionate share of contributions	13,824	-
Borough contributions subsequent to the measurement date	145,741	-
Total Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions	\$ 232,005	\$ (23,856)

The \$145,741 reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction in the net pension liability in the year ended June 30, 2021. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ending June 30,

2021	\$ 64,939
2022	(17,059)
2023	6,555
2024	7,972
2025	-
Thereafter	-
Total Amortization	\$ 62,407

Aleutians East Borough, Alaska

Notes to Basic Financial Statements

Actuarial Assumptions

The total pension liability was determined by an actuarial valuation as of June 30, 2018, using the actuarial assumptions listed below, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2019:

Actuarial cost method	Entry age normal; level percentage of payroll
Amortization method	Level percentage of pay, closed
Inflation	2.50%
Salary increases	For peace officer/firefighter, increases range from 7.75% to 2.75% based on service. For all others, increases range from 6.75% to 2.75% based on service.
Investment rate of return	7.38%, net of pension plan investment expenses. This is based on an average inflation rate of 2.50% and a real rate of return of 4.88%.
Mortality	Pre-termination and post-termination mortality rates were based upon the 2013-2017 actual mortality experience. Pre-termination mortality rates were based on 100% of the RP-2014 table with MP-2017 generational improvement. Post-termination mortality rates were based on 91% of male and 96% of female rates of the RP-2014 table with MP-2017 generational improvement. Deaths are assumed to be occupational 75% of the time for peace officer/firefighters, 40% of the time for all others.

The actuarial assumptions used in the June 30, 2018 actuarial valuation (latest available) were based on the results of an actuarial experience study for the period from July 1, 2013 to June 30, 2017. As a result of this experience study, the ARM Board adopted updated actuarial assumptions for the June 30, 2018 actuarial valuation to better reflect expected future experience.

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Aleutians East Borough, Alaska

Notes to Basic Financial Statements

Long-Term Expected Rate of Return

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic rates of return, excluding the inflation component of 2.50%, for each major asset class included in the pension plan's target asset allocation as of June 30, 2019 are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Broad domestic equity	24%	8.16%
Global equity (non-U.S.)	22%	7.51%
Intermediate treasuries	10%	1.58%
Opportunistic	10%	3.96%
Real assets	17%	4.76%
Absolute return	7%	4.76%
Private equity	9%	11.39%
Cash equivalents	1%	0.83%

Discount Rate

The discount rate used to measure the total pension liability was 7.38%. This is a reduction in the discount rate used since the prior measurement date, which was 8.00%. The projection of cash flows used to determine the discount rate assumed that employer and State contributions will continue to follow the current funding policy, which meets State statutes. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the Net Pension Liability to Changes in the Discount Rate

The following presents the Borough's proportionate share of the net pension liability calculated using the discount rate of 7.38%, as well as what the Borough's proportionate share of the net pension liability would be if it were calculated using a discount rate that is one percentage-point lower or one percentage-point higher than the current rate:

	Proportional Share	1% Decrease (6.38%)	Current Discount Rate (7.38%)	1% Increase (8.38%)
Borough's proportionate share of the net pension liability	0.02944%	\$ 2,126,817	\$ 1,611,440	\$ 1,179,827

Aleutians East Borough, Alaska

Notes to Basic Financial Statements

Pension Plan Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in the separately issued PERS financial report.

(b) Defined Contribution (DC) Pension Plan

Employees hired after July 1, 2006 participate in PERS Tier IV, a DC plan. This Plan is administered by the State of Alaska, Department of Administration in conjunction with the DB plan noted above. Benefit and contribution provisions are established by State law and may be amended only by the State Legislature. The Alaska Retirement Management Board may also amend contribution requirements. Included in the Plan are individual pension participation accounts. Each participation account is self-directed with respect to investment options. This Plan is included in the comprehensive annual financial report for PERS, and at the following website, as noted above. <http://doa.alaska.gov/drb/pers>. Contributions to the DC plan consist solely of employer and employee contributions with no special funding or other nonemployer contributions. In addition, actual remittances to the PERS system require that the Borough contribute at 22%. After deducting the DC plan contributions (and related OPEB contributions), the remaining remittance (the DBUL) is deposited into the DB plan as noted earlier.

Benefit Terms

Employees are immediately vested in their own contributions and vest 25% with two years of service, plus an additional 25% per year thereafter for full vesting at five years of service. Nonvested employer contributions are forfeited upon termination of employment from the Plan. Such forfeitures were applied in the year ended June 30, 2020 to cover a portion of the Borough's employer match contributions. For the year ended June 30, 2020, forfeitures reduced pension expense by \$5,172.

Employee Contribution Rate

Employees are required to contribute 8% of their annual covered salary. This amount goes directly to the individual's account.

Employer Contribution Rate

For the year ended June 30, 2020, the Borough was required to contribute 5% of covered salary into the Plan.

The Borough and employee contributions to PERS for pensions for the year ended June 30, 2020 were \$21,588 and \$34,541, respectively. The Borough contribution amount was recognized as pension expense/expenditures.

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Aleutians East Borough, Alaska

Notes to Basic Financial Statements

(c) Defined Benefit OPEB Plans

As part of its participation in PERS, the Borough participates in the following cost sharing multiple employer defined benefit OPEB plans: Alaska Retiree Healthcare Trust (ARHCT), Retiree Medical Plan (RMP) and Occupational Death and Disability Plan (ODD).

The ARHCT, a healthcare trust fund, provides major medical coverage to retirees of the DB plan. The ARHCT is self-funded and self-insured. The ARHCT was closed to all new members effective July 1, 2006. Benefits vary by Tier level. The RMP is self-insured and provides major medical coverage to retirees of the PERS DC Plan (Tier IV). Members are not eligible to use the Plan until they have at least 10 years of service and are Medicare age eligible. The ODD provides death benefits for beneficiaries of plan participants and long-term disability benefits to all active members within PERS. The Plans are administered by the State of Alaska, Department of Administration. The OPEB plans are included in the comprehensive annual financial report for PERS, at the following website, as noted above. <http://doa.alaska.gov/dr/pers>.

Employer Contribution Rate

Employer contribution rates are actuarially determined and adopted by and may be amended by the Board. Employees do not contribute.

Employer contribution rates for the year ended June 30, 2020 were as follows:

	Other	Police/Fire
Alaska Retiree Healthcare Trust	6.28%	6.28%
Retiree Medical Plan	1.32%	1.32%
Occupational Death and Disability Benefits	0.26%	0.72%
Total Contribution Rates	7.86%	8.32%

In 2020, the Borough was credited with the following contributions to the OPEB plans:

	Measurement Period July 1, 2018 to June 30, 2019	Borough Fiscal Year July 1, 2019 to June 30, 2020
Employer contributions - ARHCT	\$ 53,413	\$ 57,219
Employer contributions - RMP	3,889	5,699
Employer contributions - ODD	1,075	1,123
Total Contributions	\$ 58,377	\$ 64,041

Aleutians East Borough, Alaska

Notes to Basic Financial Statements

OPEB Liabilities, OPEB Asset, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB Plans

At June 30, 2020, the Borough reported a liability for its proportionate share of the net OPEB liabilities (NOL) that reflected a reduction for State OPEB support provided to the Borough. The amount recognized by the Borough for its proportional share, the related State proportion, and the total were as follows:

Borough's proportionate share of NOL - ARHCT	\$ 43,757
Borough's proportionate share of NOL - RMP	7,928
Total Borough's Proportionate Share of Net OPEB Liabilities	51,685
State's proportionate share of the ARHCT NOL associated with the Borough	17,287
Total Net OPEB Liabilities	\$ 68,972

At June 30, 2020, the Borough reported an asset for its proportionate share of the net OPEB asset (NOA) associated with the Borough's participation in the ODD Plan. The amount recognized by the Borough for its proportionate share was \$6,385.

The total OPEB liabilities (asset) for the June 30, 2019 measurement date was determined by an actuarial valuation as of June 30, 2018 rolled forward to June 30, 2019 to calculate the net OPEB liabilities (asset) as of that date. The Borough's proportion of the net OPEB liabilities (asset) is based on the ratio of the present value of projected future contributions for each employer to the present value of project future contributions to the Plans for the fiscal years 2020 to 2039.

	June 30, 2018 Measurement Date Employer Proportion	June 30, 2019 Measurement Date Employer Proportion	Change
Borough's proportionate share of the net OPEB liabilities (asset):			
ARHCT	0.02921%	0.02949%	0.00028%
RMP	0.03305%	0.03314%	0.00009%
ODD	0.03305%	0.02633%	0.00672%

For the year ended June 30, 2020, the Borough recognized OPEB expense of \$(316,128). Of this amount, \$(111,724) was recorded for on-behalf revenue and expense for support provided by the ARHCT plan. OPEB expense and on-behalf revenue is listed by plan in the table below:

Plan	OPEB expense	On-behalf revenue
ARHCT	\$ (328,933)	\$ (111,724)
RMP	11,294	-
ODD	1,511	-
Total	\$ (316,128)	\$ (111,724)

Aleutians East Borough, Alaska

Notes to Basic Financial Statements

At June 30, 2020, the Borough reported deferred outflows of resources and deferred inflows of resources related to OPEB plans from the following sources:

<i>Deferred Outflows of Resources</i>	ARHCT	RMP	ODD	Total
Changes in assumptions	\$ 58,065	\$ 3,837	\$ -	\$ 61,902
Changes in proportion and differences between Borough contributions and proportionate share of contributions	16,148	249	788	17,185
Borough contributions subsequent to the measurement date	57,219	5,699	1,123	64,041
Total Deferred Outflows of Resources Related to OPEB Plans	\$ 131,432	\$ 9,785	\$ 1,911	\$ 143,128

<i>Deferred Inflows of Resources</i>	ARHCT	RMP	ODD	Total
Difference between expected and actual experience	\$ (29,404)	\$ (587)	\$ (1,991)	\$ (31,982)
Changes in assumptions	-	-	(122)	(122)
Difference between projected and actual investment earnings	(19,161)	(87)	(42)	(19,290)
Changes in proportion and differences between Borough contributions and proportionate share of contributions	-	-	(540)	(540)
Total Deferred Inflows of Resources Related to OPEB Plans	\$ (48,565)	\$ (674)	\$ (2,695)	\$ (51,934)

Amounts reported as deferred outflows of resources related to OPEB plans resulting from Borough contributions subsequent to the measurement date will be recognized as a reduction in the net OPEB liabilities (asset) in the year ended June 30, 2021. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

<i>Year Ending June 30,</i>	ARHCT	RMP	ODD	Total
2021	\$ 29,915	\$ 369	\$ (314)	\$ 29,970
2022	(14,893)	369	(314)	(14,838)
2023	4,610	579	(256)	4,933
2024	6,016	575	(255)	6,336
2025	-	495	(274)	221
Thereafter	-	1,025	(494)	531
Total Amortization	\$ 25,648	\$ 3,412	\$ (1,907)	\$ 27,153

Aleutians East Borough, Alaska

Notes to Basic Financial Statements

Actuarial Assumptions

The total OPEB liability for each plan for the measurement period ended June 30, 2019 was determined by actuarial valuations as of June 30, 2018, using the following actuarial assumptions, applied to all periods included in the measurement, and rolled forward to the measurement date of June 30, 2019:

Actuarial cost method	Entry age normal; level percentage of payroll
Amortization method	Level percentage of payroll, closed
Inflation	2.50%
Salary increases	Graded by service, from 7.75% to 2.75% for Peace Officer/ Firefighter. Graded by service from 6.75% to 2.75% for all others
Investment return of return	7.38%, net of postemployment healthcare plan investment expenses. This is based on an average inflation rate of 2.50% and a real rate of return of 4.88%.
Healthcare cost trend rates (ARHCT Plan and RMP)	Pre-65 medical: 7.5% grading down to 4.5% Post-65 medical: 5.5% grading down to 4.5% Prescription drug: 8.5% grading down to 4.5% EGWP: 8.5% grading down to 4.5%
Mortality	Pre-termination and post-termination mortality rates were based upon the 2013-2017 actual mortality experience. Post-termination mortality rates were based on 91% of the male rates and 96% of the female rates of the RP-2014 healthy annuitant table project with MP-2017 generational improvement. The rates for pre- termination mortality were 100% of the RP-2014 employee table with MP-2017 generational improvement.
Participation (ARHCT)	100% system paid of members and their spouses are assumed to elect the healthcare benefits paid as soon as they are eligible. 10% of nonsystem paid members and their spouses are assumed to elect the healthcare benefits as soon as they are eligible.

The actuarial assumptions used in the June 30, 2018 actuarial valuation were based on the results of an actuarial experience study for the period from July 1, 2013 to June 30, 2017. As a result of this experience study, the ARM Board adopted updated actuarial assumptions for the June 30, 2018 actuarial valuation to better reflect expected future experience.

In addition to the changes in assumptions resulting from the experience study, the following assumption changes have been made since the prior valuation:

1. An Employer Group Waiver Plan (EGWP) was implemented effective January 1, 2019. This arrangement replaced the Retiree Drug Subsidy (RDS) under Medicare Part D and resulted in larger projected subsidies to offset the cost of prescription drug coverage.
2. Based on recent experience, the healthcare cost trend assumptions were updated
3. Per capita claims costs were updated to reflect recent experience.
4. Healthcare cost trends were updated to reflect a Cadillac Tax load.

Aleutians East Borough, Alaska

Notes to Basic Financial Statements

Long-Term Expected Rate of Return

The long-term expected rate of return on OPEB plan investments for each plan was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of postretirement healthcare plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The best estimates of arithmetic rates of return, excluding the inflation component of 2.50% for each major asset class included in the OPEB plan's target asset allocation as of June 30, 2019 are summarized in the following table:

<i>Asset Class</i>	<i>Target Allocation</i>	<i>Long-Term Expected Real Rate of Return</i>
Broad domestic equity	24%	8.16%
Global equity (non-U.S.)	22%	7.51%
Intermediate treasuries	10%	1.58%
Opportunistic	10%	3.96%
Real assets	17%	4.76%
Absolute return	7%	4.76%
Private equity	9%	11.39%
Cash equivalents	1%	0.83%

Discount Rate

The discount rate used to measure the total OPEB liability for each plan as of June 30, 2019 was 7.38%. This is a reduction in the discount rate used since the prior measurement date, which was 8.00%. The projection of cash flows used to determine the discount rate assumed that employer and State contributions will continue to follow the current funding policy which meets State statutes. Based on those assumptions, the fiduciary net position of each plan was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on OPEB plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability for each plan.

Sensitivity of the Net OPEB Liability (Asset) to Changes in the Discount Rate

The following presents the Borough's proportionate share of the net OPEB liability (asset) calculated using the discount rate of 7.38%, as well as what the Borough's proportionate share of the respective plan's net OPEB liability (asset) would be if it were calculated using a discount rate that is one percentage point lower or one percentage point higher than the current rate:

	<i>Proportional Share</i>	<i>1% Decrease (6.38%)</i>	<i>Current Discount Rate (7.38%)</i>	<i>1% Increase (8.38%)</i>
Borough's proportionate share of the net OPEB liability (asset):				
ARHCT	0.02949%	\$ 351,970	\$ 43,757	\$ (209,782)
RMP	0.03314%	\$ 19,912	\$ 7,928	\$ (1,095)
ODD	0.02633%	\$ (6,056)	\$ (6,385)	\$ (6,650)

Aleutians East Borough, Alaska

Notes to Basic Financial Statements

Sensitivity of the Net OPEB Liability (Asset) to Changes in the Healthcare Cost Trend Rates

The following presents the Borough's proportionate share of the net OPEB liability (asset) calculated using the healthcare cost trend rates as summarized in the 2019 actuarial valuation reports as well as what the Borough's proportionate share of the respective plan's net OPEB liability (asset) would be if it were calculated using healthcare cost trend rates that are one percentage point lower or one percentage point higher than the current healthcare cost trend rates:

	Proportional Share	1% Decrease	Current Healthcare Cost Trend Rate	1% Increase
Borough's proportionate share of the net OPEB liability (asset):				
ARHCT	0.02949%	\$ (239,435)	\$ 43,757	\$ 389,358
RMP	0.03314%	\$ (2,438)	\$ 7,928	\$ 22,118
ODD	0.02633%	\$ n/a	\$ n/a	\$ n/a

OPEB Plan Fiduciary Net Position

Detailed information about each OPEB plan's fiduciary net position is available in the separately issued PERS financial report.

(d) Defined Contribution OPEB Plans

PERS DC Pension Plan participants (PERS Tier IV) also participate in the Health Reimbursement Arrangement Plan (HRA Plan). The HRA Plan is established under AS 39.30.300. The HRA Plan allows for medical care expense to be reimbursed from individual savings accounts established for eligible persons. The HRA Plan became effective July 1, 2006 at which time contributions by employers began.

Contribution Rate

AS 39.30.370 establishes this contribution amount as "three percent of the average annual employee compensation of *all employees of all employers* in the plan". As of July 1, 2019, for actual remittance, this amount is calculated as a flat rate for each full-time or part-time employee per pay period and approximates \$2,121 per year for each full-time employee, and \$1.36 per hour for part-time employees.

Annual Postemployment Healthcare Cost

In fiscal year 2020, the Borough contributed \$13,640 in DC OPEB costs. These amounts have been recognized as expense/expenditures.

Aleutians East Borough, Alaska

Notes to Basic Financial Statements

9. Deferred Compensation Plan

The Borough offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan, available to all employees, permits them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or an unforeseeable emergency.

All amounts of compensation deferred under the plan, all property and rights purchased with those amounts, and all income attributable to those amounts, property, or rights (until paid or made available to the employee or other beneficiary) are solely the property and rights of the Borough (without being restricted to provisions of benefits under the plan), subject only to claims of the Borough's general creditors. Participants' rights under the plan are equal to those of general creditors of the Borough in the amount equal to fair market value of the deferred account for each participant.

The Borough has no liability for losses under the plan but does have the duty of due care that would be required of an ordinary prudent investor. The Borough believes it is unlikely it will use the assets to satisfy claims of general creditors in the future. Assets of the fund totaled \$440,147 at June 30, 2020 and are accounted for in the deferred compensation agency fund.

10. Contribution to Aleutians East Borough School District

During the year ended June 30, 2020, the Borough contributed \$1,033,045 to the Aleutians East Borough School District, which is a component unit of the Borough. Of this amount, \$800,000 was for a local contribution and \$233,045 was for in-kind support related to facility maintenance, insurance and usage of space.

11. Commitments and Contingencies

(a) Grants

The Borough participates in a number of federal and state grant programs. These programs are subject to program compliance audits by grantors or their representatives. The amount, if any, of expenditures that may be disallowed by granting agencies cannot be determined at this time, although the Borough expects such amounts, if any, to be immaterial.

(b) Helicopter Transportation Contract

During fiscal year 2014, the Borough entered into a contract to transport people and mail from Akutan Airport to the City of Akutan. On January 30, 2019, the Borough entered into a Helicopter Services Agreement with Maritime Helicopters (Maritime). Maritime agreed to provide Essential Air Service (EAS) between Akutan and Akutan Airport located on Akun Island and the Borough agreed to pay 50% of the EAS costs for the services provided by Maritime. The original term of this agreement began on February 1, 2020 and ended on December 31, 2020. This agreement was extended to March 31, 2021. The Borough and Maritime are in the process of entering into another agreement, which will become effective April 1, 2021 and end on March 31, 2023.

Aleutians East Borough, Alaska

Notes to Basic Financial Statements

(c) Litigation

A restitution payable by the Army Corps of Engineers of \$20,650,253 was awarded on December 5, 2017 in regards to the claim from Kelly-Ryan, Inc., against the Army Corps of Engineers arising from a contract dispute relating to the construction of the False Pass Harbor. Originally the project cooperation agreement between the Department of the Army and the Borough provided for cost sharing on the part of the Borough, which made the Borough liable for part of the restitution awarded. However, in December 2020, the President signed the Omnibus/COVID Bill into law. The legislation included the WRDA Bill, and the False Pass provision, which states:

“In a case in which the Armed Services Board of Contract Appeals or other court of competent jurisdiction has rendered a decision during the period beginning on December 1, 2017, and ending on December 31, 2022, awarding damages to a contractor relating to the adjudication of claims arising from the construction of an authorized water resources development project, notwithstanding the terms of the Project Partnership Agreement, the Secretary shall waive payment of the share of the non-Federal interest of those damages, including attorney’s fees, if - (1)(A) the contracting officer was instructed by the Corps of Engineers to modify the terms of the contract or terminate the contract; and (B) the Armed Services Board of Contract Appeals or other court of competent jurisdiction determined that the failure of the contracting officer to timely take the action described in subparagraph (A) was a material breach of the contract that resulted in damages to the contractor awarded by the Armed Services Board of Contract Appeals or the court, as applicable; or (2) the claims arose from construction of a project deauthorized under this title.”

Therefore, the Borough is no longer responsible for the restitution award. The Borough is working with the Army Corps to finalize the documentation in regards to this.

The Borough entered into a Project Partnership Agreement with the Army Corps of Engineers for the False Pass Harbor Project. The Borough may owe \$650,000 for the second 10% of the project. Currently, the Borough has not received a final statement from the Army Corps of Engineers showing the amount owed and no agreement has been reached between the Borough and the Army Corp of Engineers for payment.

At the date of the financial statements, the amount of loss contingencies, if any, were not reasonably determinable, and deemed neither probable nor remote, hence no contingencies have been booked in the current year.

12. Subsequent Events

In preparing these financial statements, the Borough has evaluated all other events and transactions for potential recognition or disclosure through May 20, 2021, the date the financial statements were issued.

13. Coronavirus Pandemic

On January 30, 2020, the World Health Organization (“WHO”) announced a global health emergency because of a new strain of coronavirus originating in Wuhan, China and the risks to the international community as the virus spread globally beyond its point of origin. In March 2020, the WHO classified the coronavirus as a pandemic, based on the rapid increase in exposure globally.

Aleutians East Borough, Alaska

Notes to Basic Financial Statements

The Borough's operations are heavily dependent upon the ability to collect fish taxes and assess fees for helicopter services. Additionally, the Borough also receives significant grant funding from the federal government and State of Alaska. The coronavirus pandemic has adversely impacted economic and financial market conditions, both globally and locally. It is possible that the coronavirus pandemic will adversely impact the Borough's tax revenue base, demand for services, access to federal and state grant funding, as well as depress the value of the Borough's investments in marketable securities. It is also possible the Borough will incur additional, previously unbudgeted expenditures as a result of the pandemic. Furthermore, it is possible that the coronavirus pandemic may adversely impact the Borough's operations by limiting or restricting the Borough's ability or deploy its workforce effectively.

Management has and is continuing to evaluate the impact of COVID-19. The full impact of COVID-19 and the scope of any adverse impact on the Borough's financial condition, results from operations and liquidity cannot be fully determined at this time.

14. Economic Relief Legislation

On March 27, 2020, the "Coronavirus Aid, Relief and Economic Security (CARES) Act" was signed into law. The CARES Act, among other things, appropriated funds for the Coronavirus Relief Fund to be used to make payments for specified uses to States and certain local governments. The Borough received \$1,458,776 in payments from the Coronavirus Relief Fund (CRF), passed through the State of Alaska, for the year ended June 30, 2020. The Borough applied \$90,196 in CRF funding toward eligible expenditures in fiscal year 2020. Subsequent to year end, the Borough received an additional \$2,265,078 through the CRF. The Borough continues to examine the impact that the CARES Act may have. In addition, the Consolidated Appropriations Act, 2021 and the American Rescue Plan Act of 2021 were signed into law on December 27, 2020 and March 11, 2021, respectively. Both Acts appropriated funds for States and certain local governments. Currently, the Borough is unable to determine the full impact the economic relief legislation will have on the Borough's financial condition, results of operations, or liquidity.

15. New Accounting Pronouncements

The Governmental Accounting Standards Board has issued several new accounting standards with upcoming implementation dates. Management has not fully evaluated the potential effects of these statements, and actual impacts have not yet been determined. The statements are as follows:

GASB Statement No. 84 - Fiduciary Activities - Effective for year-end June 30, 2020. This Statement addresses criteria for identifying and reporting fiduciary activities.

GASB Statement No. 87 - Leases - Effective for year-end June 30, 2021, This Statement addresses accounting and financial reporting for certain lease assets and liabilities for leases that previously were classified as operating leases. This Statement establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset.

GASB Statement No. 89 - Accounting for Interest Cost Incurred before the End of a Construction Period - Effective for year-end June 30, 2021. This Statement requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus.

Aleutians East Borough, Alaska

Notes to Basic Financial Statements

GASB Statement No. 90 - Majority Equity Interests - an amendment of GASB Statements No. 14 and No. 61 - Effective for year-end June 30, 2020. This Statement addresses accounting and financial reporting for a majority equity interest in a legally separate organization. It provides a definition of a majority equity interest and provides guidance for further presentation as either an investment or a component unit, based on specific criteria.

GASB Statement No. 91 - Conduit Debt Obligations - Effective for year-end June 30, 2022. This Statement provides a single method of reporting conduit debt obligations by issuers and eliminates diversity in practice associated with commitments extended by issuers, arrangements associated with conduit obligations, and related note disclosures. This Statement clarifies the definition of a conduit debt obligation and establishes standards for related accounting and financial reporting.

GASB Statement No. 92 - Omnibus 2020 - Provisions of this Statement related to the effective date of Statement No. 87 and Implementation Guide 2019-3, reinsurance recoveries, and terminology used to refer to derivative instruments are effective upon issuance. The effective date for all other provisions of the Statement are to be implemented for year-end June 30, 2021. This Statement addresses a variety of topics such as leases, the applicability of Statement No. 73 and Statement No. 74 for reporting assets accumulated for postemployment benefits, the applicability of Statement No. 84 to postemployment benefit arrangements, the measurements of liabilities and assets related to asset retirement obligations in a government acquisition, reporting of public entity risk pools, referencing to nonrecurring fair value measurements, and terminology used to refer to derivative instruments.

GASB Statement No. 93 - Replacement of Interbank Offered Rates - The provisions of this Statement, except for paragraph 11b, are required to be implemented for year-end June 30, 2022. The requirements in paragraph 11b are required to be implemented for year-end June 30, 2023. This Statement addresses accounting and financial reporting implications that result from the replacement of an interbank offered rate (IBOR).

GASB Statement No. 94 - Public-Private and Public-Public Partnerships and Availability Payment Arrangements - Effective for year-end June 30, 2023. The primary objective of this Statement is to improve financial reporting by addressing issues related to public-private and public-public partnership arrangements (PPPs) and also provides guidance for accounting and financial reporting for availability payment arrangements (APA).

In light of the COVID-19 Pandemic, on May 8, 2020, the GASB issued Statement No. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance*, to provide relief to governments. This Statement, which was effective upon issuance, postpones the effective dates of certain provisions in the above noted pronouncements for one year, except for Statement No. 87 and provisions related to leases in Statement No. 92 which are postponed for eighteen months. Certain other provisions of Statement No. 92 are excluded from Statement No. 95. Additionally, Statement No. 95 excludes provisions in Statement No. 93 related to lease modifications and excludes Statement No. 94 since the GASB considered the pandemic in determining effective dates. Earlier application of the standards is encouraged and is permitted to the extent specified in each pronouncement as originally issued.

Aleutians East Borough, Alaska

Notes to Basic Financial Statements

GASB Statement No. 96 - Subscription-Based Information Technology Arrangements - Effective for year-end June 30, 2023. This statement provides guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs) for government end users. This statement, among other things, defines a SBITA, establishes that a SBITA results in a right-to-use subscription asset, provides capitalization criteria for outlays other than subscription payments, and requires note disclosures regarding a SBITA.

GASB Statement No. 97 - Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans - an Amendment of GASB Statements No. 14 and No. 84, and a Supersession of GASB Statement No. 32 - Effective for year-end June 30, 2022, except the portion of the pronouncement related to component unit criteria, which is effective for year-end June 30, 2020. This statement modifies certain guidance contained in Statement No. 84 and enhances the relevance, consistency, and comparability of the accounting and financial reporting for Internal Revenue Code (IRC) Section 457 deferred compensation plans that meet the definition of a pension plan and for benefits provided through those plans.

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Required Supplementary Information

Aleutians East Borough, Alaska
General Fund
Schedule of Revenues, Expenditures and
Changes in Fund Balance - Budget and Actual

<i>Year Ended June 30, 2020</i>	Original Budget	Final Budget	Actual Amounts	Variance With Final Budget
Revenues				
Federal government	\$ 595,256	\$ 595,256	\$ 668,816	\$ 73,560
State of Alaska	316,366	2,660,233	2,718,117	57,884
Borough raw fish tax	4,100,000	4,100,000	4,714,015	614,015
Investment income	35,000	35,000	190,444	155,444
Other	65,000	65,000	212,610	147,610
Total Revenues	5,111,622	7,455,489	8,504,002	1,048,513
Expenditures				
Current:				
Mayor's office	287,389	287,389	276,702	10,687
Assembly	221,000	221,000	203,182	17,818
Clerk and planning management	211,629	211,629	207,015	4,614
Administration	423,324	423,324	287,119	136,205
Assistant administrator	149,022	149,022	129,976	19,046
Finance	328,094	328,094	321,123	6,971
Resource department	326,472	326,472	301,050	25,422
Communications manager	181,573	181,573	164,787	16,786
Public works	131,459	131,459	127,445	4,014
King Cove Access Project	126,500	126,500	100,941	25,559
Other	1,601,074	1,601,074	1,591,288	9,786
Total Expenditures	3,987,536	3,987,536	3,710,628	276,908
Excess of Revenues Over Expenditures	1,124,086	3,467,953	4,793,374	1,325,421
Other Financing Sources (Uses)				
Transfers in	-	-	5,018,336	5,018,336
Transfers out	(3,524,910)	(3,546,812)	(4,451,304)	(904,492)
Net Other Financing Sources (Uses)	(3,524,910)	(3,546,812)	567,032	4,113,844
Net Change in Fund Balances	\$ (2,400,824)	\$ (78,859)	5,360,406	\$ 5,439,265
Fund Balances, beginning			19,714,136	
Fund Balances, ending			\$ 25,074,542	

See accompanying notes to Required Supplementary Information.

Aleutians East Borough, Alaska
Public Employees' Retirement System - Pension Plan
Schedule of the Borough's Proportionate Share of the Net Pension Liability

<i>Years Ended June 30,</i>	2020	2019	2018	2017	2016	2015
Borough's Proportion of the Net Pension Liability	0.02944%	0.02926%	0.03046%	0.03650%	0.03284%	0.02858%
Borough's Proportionate Share of the Net Pension Liability	\$ 1,611,440	\$ 1,453,693	\$ 1,574,500	\$ 2,040,097	\$ 1,592,614	\$ 1,332,935
State of Alaska Proportionate Share of the Net Pension Liability	641,549	419,234	588,884	260,943	426,877	782,704
Total Net Pension Liability	\$ 2,252,989	\$ 1,872,927	\$ 2,163,384	\$ 2,301,040	\$ 2,019,491	\$ 2,115,639
Borough's Covered Payroll	925,266	871,241	532,514	616,773	576,627	498,241
Borough's Proportionate Share of the Net Pension Liability as a Percentage of Payroll	174.16%	166.85%	295.67%	330.77%	276.19%	267.53%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	63.42%	65.19%	63.37%	59.55%	63.96%	63.37%

Schedule of Borough Contributions

<i>Years Ended June 30,</i>	2020	2019	2018	2017	2016	2015
Contractually Required Contributions	\$ 145,741	\$ 156,444	\$ 144,604	\$ 117,153	\$ 135,690	\$ 126,858
Contributions Relative to the Contractually Required Contribution	145,741	156,444	144,604	117,153	135,690	126,858
Contribution Deficiency (Excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Borough's Covered Payroll	953,677	925,266	871,241	532,514	616,773	576,627
Contributions as a Percentage of Covered Payroll	15.28%	16.91%	16.60%	22.00%	22.00%	22.00%

See accompanying notes to Required Supplementary Information.

Aleutians East Borough, Alaska
Public Employees' Retirement System - OPEB Plans
Schedule of the Borough's Proportionate Share of the Net OPEB Liability (Asset)

<i>Years Ended June 30,</i>	ARHCT			RMP			ODD		
	2020	2019	2018	2020	2019	2018	2020	2019	2018
Borough's Proportion of the Net OPEB Liability (Asset)	0.02949%	0.02921%	0.03052%	0.03314%	0.03305%	0.03299%	0.02633%	0.03305%	0.03299%
Borough's Proportionate Share of the Net OPEB Liability (Asset)	\$ 43,757	\$ 299,740	\$ 257,835	\$ 7,928	\$ 4,205	\$ 1,721	\$ (6,385)	\$ (6,418)	\$ (4,681)
State of Alaska Proportionate Share of the Net OPEB Liability (Asset)	17,287	87,351	96,277	-	-	-	-	-	-
Total Net OPEB Liability (Asset)	\$ 61,044	\$ 387,091	\$ 354,112	\$ 7,928	\$ 4,205	\$ 1,721	\$ (6,385)	\$ (6,418)	\$ (4,681)
Borough's Covered Payroll	512,113	497,243	532,514	413,153	373,998	532,514	413,153	373,998	532,514
Borough's Proportionate Share of the Net OPEB Liability (Asset) as a Percentage of Payroll	8.54%	60.28%	48.42%	1.92%	1.12%	0.32%	-1.55%	-1.72%	-0.88%
Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability (Asset)	98.13%	88.12%	89.68%	83.17%	88.71%	93.98%	297.43%	270.62%	212.97%

Schedule of Borough Contributions

<i>Years Ended June 30,</i>	ARHCT			RMP			ODD		
	2020	2019	2018	2020	2019	2018	2020	2019	2018
Contractually Required Contributions	\$ 57,219	\$ 53,413	\$ 45,399	\$ 5,699	\$ 3,889	\$ 3,852	\$ 1,123	\$ 1,075	\$ 598
Contributions Relative to the Contractually Required Contribution	57,219	53,413	45,399	5,699	3,889	3,852	1,123	1,075	598
Contribution Deficiency (Excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Borough's Covered Payroll	521,918	512,113	497,243	431,760	413,153	373,998	431,760	413,153	373,998
Contributions as a Percentage of Covered Payroll	10.96%	10.43%	9.13%	1.32%	0.94%	1.03%	0.26%	0.26%	0.16%

See accompanying notes to Required Supplementary Information.

Aleutians East Borough, Alaska

Notes to Required Supplementary Information Year Ended June 30, 2020

1. Budgetary Comparison Schedule

The budgetary comparison schedule is presented on the modified accrual basis of accounting.

2. Public Employees' Retirement System Pension Plan

Schedule of the Borough's Proportionate Share of the Net Pension Liability

This table is presented based on the Plan measurement date. For June 30, 2020, the Plan measurement date is June 30, 2019.

Changes in Assumptions:

In 2020, the discount rate was lowered from 8% to 7.38%.

The actuarial assumptions used in the June 30, 2018 actuarial valuation (latest available) were based on the results of an actuarial experience study for the period from July 1, 2013 to June 30, 2017. As a result of this experience study, the ARM Board adopted updated actuarial assumptions for the June 30, 2018 actuarial valuation to better reflect expected future experience.

Amounts reported reflect a change in assumptions between 2016 and 2017 in the method of allocating the net pension liability from actual contributions to present value of projected future contributions.

GASB requires ten years of information be presented. However, until a full ten years of information is available, the Borough will present only those years for which information is available.

Schedule of Borough Contributions

This table is based on the Borough's contributions for each fiscal year presented. These contributions have been reported as a deferred outflow of resources on the Statement of Net Position.

GASB requires ten years of information be presented. However, until a full ten years of information is available, the Borough will present only those years for which information is available.

Aleutians East Borough, Alaska

Notes to Required Supplementary Information, continued Year Ended June 30, 2020

3. Public Employees' Retirement System OPEB Plans

Schedule of the Borough's Proportionate Share of the Net OPEB Asset and Liability

This table is presented based on the Plan measurement date. For June 30, 2020, the Plan measurement date is June 30, 2019.

Changes in Assumptions:

1. An Employer Group Waiver Plan (EGWP) was implemented effective January 1, 2019. This arrangement replaced the Retiree Drug Subsidy (RDS) under Medicare Part D and resulted in larger projected subsidies to offset the cost of prescription drug coverage.
2. Based on recent experience, the healthcare cost trend assumptions were updated
3. Per capita claims costs were updated to reflect recent experience
4. Healthcare cost trends were updated to reflect a Cadillac Tax load.
5. The discount rate was lowered from 8% to 7.38%.

The actuarial assumptions used in the June 30, 2018 actuarial valuation (latest available) were based on the results of an actuarial experience study for the period from July 1, 2013 to June 30, 2017. As a result of this experience study, the ARM Board adopted updated actuarial assumptions for the June 30, 2018 actuarial valuation to better reflect expected future experience.

Changes in Methods:

As part of the experience study, the actuarial cost method for the retiree healthcare plan was changed from the Entry Age Level Dollar method to the Entry Age Level Percent of Pay method.

GASB requires ten years of information be presented. However, until a full ten years of information is available, the Borough will present only those years for which information is available.

Schedule of Borough Contributions

This table is based on the Borough's contributions for each fiscal year presented. These contributions have been reported as a deferred outflow of resources on the Statement of Net Position.

GASB requires ten years of information be presented. However, until a full ten years of information is available, the Borough will present only those years for which information is available.

Supplementary Information

Aleutians East Borough, Alaska
General Fund
Schedule of Revenues, Expenditures and Changes
in Fund Balance - Budget and Actual

<i>Year Ended June 30, 2020</i>	Budget	Actual	Variance
Revenues			
Federal government:			
Payments in lieu of taxes	\$ 559,000	\$ 668,816	\$ 109,816
Fish and Wildlife grants	36,256	-	(36,256)
Total Federal government	595,256	668,816	73,560
State of Alaska:			
Raw fish tax	1,880,000	1,977,968	97,968
State bond rebate	328,867	318,851	(10,016)
State fish landing tax	35,000	2,733	(32,267)
State extraterritorial fish tax	100,000	36,089	(63,911)
PERS on-behalf	-	66,234	66,234
State revenue sharing	316,366	316,242	(124)
Total State of Alaska	2,660,233	2,718,117	57,884
Borough raw fish tax	4,100,000	4,714,015	614,015
Investment income	35,000	190,444	155,444
Other	65,000	212,610	147,610
Total Revenues	\$ 7,455,489	\$ 8,504,002	\$ 1,048,513
Expenditures			
Mayor's Office:			
Salaries	\$ 83,189	\$ 79,630	\$ 3,559
Fringe benefits	38,000	46,719	(8,719)
Travel and per diem	40,000	31,015	8,985
Telephone	1,800	799	1,001
Supplies	3,800	345	3,455
Lobbying	120,600	118,194	2,406
Total Mayor's Office	287,389	276,702	10,687
Assembly:			
Salaries	37,000	41,500	(4,500)
Fringe benefits	140,000	136,922	3,078
Travel and per diem	40,000	23,760	16,240
Supplies	4,000	1,000	3,000
Total Assembly	221,000	203,182	17,818

Aleutians East Borough, Alaska

General Fund

Schedule of Revenues, Expenditures and Changes
in Fund Balance - Budget and Actual, continued

<i>Year Ended June 30, 2020</i>	Budget	Actual	Variance
Expenditures, continued:			
Finance:			
Salaries	\$ 146,594	\$ 142,750	\$ 3,844
Fringe benefits	70,000	79,487	(9,487)
Travel and per diem	10,000	3,928	6,072
Telephone	10,000	10,349	(349)
Postage	2,500	515	1,985
Supplies	9,000	10,413	(1,413)
Utilities	5,000	3,818	1,182
Audit	75,000	69,863	5,137
Total finance	328,094	321,123	6,971
Resource department:			
Salaries	167,926	167,925	1
Fringe benefits	65,000	83,702	(18,702)
Travel and per diem	30,000	11,825	18,175
Telephone	1,500	3,034	(1,534)
NPFMC	15,000	5,268	9,732
Supplies	6,000	3,314	2,686
BOF meeting	15,000	-	15,000
Rent	26,046	25,982	64
Total resource department	326,472	301,050	25,422
Communications manager:			
Salaries	105,013	88,805	16,208
Fringe benefits	34,158	38,701	(4,543)
Travel and per diem	9,000	190	8,810
Telephone	2,400	3,034	(634)
Supplies	2,500	2,302	198
Rent	10,502	10,476	26
Advertising	18,000	21,279	(3,279)
Total communications manager	181,573	164,787	16,786
Public works:			
Salaries	72,435	75,260	(2,825)
Fringe benefits	31,024	32,785	(1,761)
Travel and per diem	20,000	14,620	5,380
Telephone	1,000	-	1,000
Supplies	5,000	2,975	2,025
Utilities	2,000	1,805	195
Total public works	131,459	127,445	4,014

Aleutians East Borough, Alaska
General Fund
Schedule of Revenues, Expenditures and Changes
in Fund Balance - Budget and Actual, continued

<i>Year Ended June 30, 2020</i>	Budget	Actual	Variance
Expenditures, continued:			
Clerk and planning management:			
Salaries	\$ 107,629	\$ 103,518	\$ 4,111
Fringe benefits	43,000	51,920	(8,920)
Travel and per diem	12,500	5,045	7,455
Telephone	7,500	11,885	(4,385)
Postage	1,000	713	287
Supplies	5,000	3,093	1,907
Utilities	20,000	19,634	366
Dues and fees	5,000	2,399	2,601
Elections	10,000	8,808	1,192
Total clerk and planning management	211,629	207,015	4,614
Administration:			
Salaries	187,481	149,673	37,808
Fringe benefits	72,500	97,545	(25,045)
Engineering	25,000	7,459	17,541
Contract	90,000	-	90,000
Travel and per diem	17,500	7,823	9,677
Telephone	6,100	5,054	1,046
Postage	2,000	614	1,386
Supplies	10,000	7,268	2,732
Rent	10,243	10,408	(165)
Dues and fees	2,500	1,275	1,225
Total administration	423,324	287,119	136,205
Assistant administrator:			
Salaries	93,164	83,758	9,406
Fringe benefits	32,000	30,349	1,651
Travel and per diem	10,000	2,631	7,369
Telephone	1,750	1,285	465
Supplies	2,000	1,870	130
Rent	10,108	10,083	25
Total assistant administrator	149,022	129,976	19,046

Aleutians East Borough, Alaska

General Fund

Schedule of Revenues, Expenditures and Changes
in Fund Balance - Budget and Actual, continued

<i>Year Ended June 30, 2020</i>	Budget	Actual	Variance
Expenditures, continued:			
King Cove Access Project:			
Supplies	\$ 1,500	\$ 1,941	\$ (441)
Maintenance	125,000	99,000	26,000
Total King Cove Access Project	126,500	100,941	25,559
Other:			
Local school contribution	800,000	800,000	-
Student scholarship	35,000	34,024	976
Student travel	20,000	20,000	-
Repairs	5,000	568	4,432
Utilities	25,000	20,275	4,725
Equipment	35,000	66,725	(31,725)
AEB vehicles	500	-	500
Legal	100,000	30,564	69,436
Insurance	185,000	190,641	(5,641)
Bank fees	15,000	12,665	2,335
Contribution to Eastern Aleutians Tribes	150,000	150,000	-
Revenue sharing - Nelson Lagoon	16,000	15,789	211
Aleutian Crab	58,522	35,014	23,508
Donations	23,500	14,450	9,050
Contractual	46,000	58,527	(12,527)
Web service	36,552	32,349	4,203
KSDP contribution	10,000	10,000	-
Miscellaneous expense	40,000	99,697	(59,697)
Total other	1,601,074	1,591,288	9,786
Total Expenditures	3,987,536	3,710,628	276,908
Excess of Revenues Over Expenditures	3,467,953	4,793,374	1,325,421
Other Financing Sources (Uses)			
Transfers in	-	5,018,336	5,018,336
Transfers out	(3,546,812)	(4,451,304)	(904,492)
Net Other Financing Sources (Uses)	(3,546,812)	567,032	4,113,844
Net Change in Fund Balance	\$ (78,859)	\$ 5,360,406	\$ 5,439,265
Fund Balance, beginning		19,714,136	
Fund Balance, ending		\$ 25,074,542	

Aleutians East Borough, Alaska
Capital Improvements Capital Project Fund
Statement of Revenues, Expenditures, and Changes
in Fund Balance

Year Ended June 30, 2020

Revenues

Federal government	\$ 197,541
State of Alaska	194,664
Other revenue	24,456

Total Revenues	416,661
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Expenditures

Current - infrastructure:	
Travel	9,395
Contractual	128,050
Supplies	55,078
Repairs	133,789
Maintenance	671,156
Other	78,796
Capital outlay	841,890

Total Expenditures	1,918,154
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Excess of Revenues Under Expenditures	(1,501,493)
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Other Financing Sources - transfers in	1,045,088
---	------------------

Net Change in Fund Balance	(456,405)
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Fund Balance, beginning	456,405
--------------------------------	----------------

Fund Balance, ending	\$ -
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Aleutians East Borough, Alaska

Trust Permanent Fund

Statement of Revenues, Expenditures, and Changes in Fund Balance

Year Ended June 30, 2020

Revenues - investment income	\$ 321,164
Expenditures - current - general government - management fee	42,410
Excess of Revenues Under Expenditures	278,754
Other Financing Sources - transfers out	(5,018,336)
Net Change in Fund Balance	(4,739,582)
Fund Balance, beginning	47,035,499
Fund Balance, ending	\$ 42,295,917

Aleutians East Borough, Alaska

Debt Service Fund

Statement of Revenues, Expenditures, and Changes in Fund Balance

Year Ended June 30, 2020

Expenditures

Debt service:

Principal	\$ 1,520,000
Interest	962,416

Total Expenditures	2,482,416
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Other Financing Sources - transfers in	2,482,416
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Net Change in Fund Balance	-
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Fund Balance, beginning	-
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Fund Balance, ending	\$ -
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Aleutians East Borough, Alaska
Bond Construction Capital Project Fund
Statement of Revenues, Expenditures, and Changes in Fund Balance

Year Ended June 30, 2020

Revenues

Investment income	\$ 98,101
Other	67,159

Total Revenues	165,260
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Expenditures

Current - infrastructure - contractual	42,410
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Net Change in Fund Balance	122,850
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Fund Balance, beginning	197,214
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Fund Balance, ending	\$ 320,064
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Aleutians East Borough, Alaska
Maintenance Reserve Capital Project Fund
Statement of Revenues, Expenditures, and Changes in Fund Balance

Year Ended June 30, 2020

Expenditures

Current - infrastructure:		
Maintenance	\$	250,000
Other		11,395
Capital outlay		6,085
Total Expenditures		267,480
Other Financing Sources - transfers in		267,480
Net Change in Fund Balances		-
Fund Balance, beginning		-
Fund Balance, ending	\$	-

Aleutians East Borough
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2020

Federal Grantor / Pass-Through Grantor / Program or Cluster Title	Federal CFDA Number	Passed-Through Entity Identifying Number	Total Grant Award	Provided to Subrecipients	Total Federal Expend- itures
Department of the Interior					
Payments in Lieu of Taxes	15.226		\$ 668,816	\$ -	\$ 668,816
Department of the Treasury					
Passed through the State of Alaska					
Department of Commerce, Community and Economic Development - COVID-19 - Coronavirus Relief Fund	21.019	20-CRF-009	3,723,854	-	90,196
Department of Commerce					
Passed through the National Fish and Wildlife Foundation:					
Unallied Science Program	11.472	0303.18.062040	433,773	-	84,680
Unallied Science Program	11.472	0303.19.066233	531,217	-	7,360
Total CFDA 11.472				-	92,040
Unallied Management Projects	11.454	0303.08.061327	71,456	-	15,305
Total Department of Commerce				-	107,345
Total Expenditures of Federal Awards				\$ -	\$ 866,357

1. Basis of Presentation

The schedule of expenditures of federal awards (the "Schedule") includes the federal award activity of Aleutians East Borough, Alaska (the Borough). The information in the Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the Borough, it is not intended to and does not present the financial position, changes in net position, or cash flows of the Borough.

2. Summary of Significant Accounting Policies

Expenditures reported on the Schedule are reported on the modified accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

3. Indirect Cost Rate

The Borough has not elected to use the 10-percent de minimis indirect cost rate allowed under the Uniform Guidance.

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Single Audit Section



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Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards*

Honorable Mayor and Borough Assembly
Aleutians East Borough, Alaska

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of Aleutians East Borough, Alaska (the Borough), as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the Borough's basic financial statements, and have issued our report thereon dated May 20, 2021.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Borough's internal control over financial reporting (internal control) as a basis for designing the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Borough's internal control. Accordingly, we do not express an opinion on the effectiveness of the Borough's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. However, as described in the accompanying schedule of findings and questioned costs, we did identify certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material* weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying schedule of findings and questioned costs as item 2020-001 to be a material weakness.

A *significant deficiency* is a deficiency or a combination of deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as items 2020-002, 2020-003, and 2020-004 to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Borough's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

The Borough's Response to Findings

The Borough's response to the findings identified in our audit is described in the accompanying corrective action plan. The Borough's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

BDO USA, LLP

Anchorage, Alaska
May 20, 2021



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3601 C Street, Suite 600
Anchorage, AK 99503

Independent Auditor's Report on Compliance for Each Major Federal Program and Report on Internal Control Over Compliance Required by the Uniform Guidance

Honorable Mayor and Borough Assembly
Aleutians East Borough, Alaska

Report on Compliance for Each Major Federal Program

We have audited Aleutians East Borough's (the Borough) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the Borough's major federal programs for the year ended June 30, 2020. The Borough's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

The Borough's basic financial statements include the operations of Aleutians East Borough School District which received \$2,711,418 in federal awards which is not included in the Borough's schedule of expenditures of federal awards during the year ended June 30, 2020. Our audit, described below, did not include the operations of Aleutians East Borough School District because it was subjected to a separate audit in accordance with the Uniform Guidance.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the Borough's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Borough's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the Borough's compliance.

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Opinion on Each Major Federal Program

In our opinion, the Borough complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2020.

Report on Internal Control Over Compliance

Management of the Borough is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Borough's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Borough's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we did identify certain deficiencies in internal control over compliance, described in the accompanying schedule of findings and questioned costs as items 2020-005 and 2020-006 that we consider to be significant deficiencies.

The Borough's response to the noncompliance finding identified in our audit is described in the accompanying corrective action plan. The Borough's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

BDO USA, LLP

Anchorage, Alaska
May 20, 2021

Aleutians East Borough, Alaska

Schedule of Findings and Questioned Costs Year Ended June 30, 2020

Section I - Summary of Auditors' Results

Financial Statements

Type of report the auditor issued on whether the financial statements audited were prepared in accordance with GAAP: Unmodified

Internal control over financial reporting:

Material weakness(es) identified? X yes no
Significant deficiency(ies) identified? X yes none reported

Noncompliance material to financial statements noted? yes X no

Federal Awards

Internal control over major federal programs:

Material weakness(es) identified? yes X no
Significant deficiency(ies) identified? X yes none reported

Type of auditor's report issued on compliance for major federal programs: Unmodified

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)? X yes no

Identification of major federal programs:

<i>CFDA Number</i>	<i>Name of Federal Program or Cluster</i>	<i>Agency</i>
15.226	Payments in Lieu of Taxes	Department of the Interior

Dollar threshold used to distinguish between type A and type B programs: \$ 750,000

Auditee qualified as low-risk auditee? yes X no

Aleutians East Borough, Alaska

Schedule of Findings and Questioned Costs, continued Year Ended June 30, 2020

Section II - Financial Statement Findings Required to be Reported in Accordance with Government Auditing Standards

<u>Finding 2020-001</u>	General Ledger Reconciliation and External Financial Reporting - Material Weakness in Internal Control
--------------------------------	---

<i>Criteria</i>	Management is responsible for the preparation and fair presentation of financial statements in accordance with accounting principles generally accepted in the United States of America (GAAP); this includes the design, implementation, and maintenance of internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatement. The general ledger and accounting records should accurately report financial transactions and year-end balances in accordance with GAAP.
<i>Condition</i>	There were material adjustments made to the general ledger and the financial statements during the course of the audit. Specifically, adjustments were required to properly interfund transfers, cash, investments, intergovernmental receivables, unearned revenue, and investment income balances.
<i>Cause</i>	Internal controls were not established to ensure that all general ledger accounts were properly reconciled and adjusted at year-end for GAAP-based financial reporting.
<i>Effect or potential effect</i>	Individual accounts were misstated, requiring multiple adjustments. Without such adjustments, the financial statements would have been materially misstated.
<i>Recommendation</i>	Management should closely review the activity in the general ledger. Information should be reviewed for completeness and accuracy. Year-end balances should be reviewed in a timely manner.
<i>Views of responsible officials</i>	Management concurs with the finding and will adhere to the corrective action plan included in this report.

Aleutians East Borough, Alaska

Schedule of Findings and Questioned Costs, continued Year Ended June 30, 2020

Finding 2020-002 **Approved Pay Rates and Timesheets - Internal Control over Financial Reporting - Significant Deficiency**

Criteria *Government Auditing Standards* states that management is responsible for establishing and maintaining effective internal control to help ensure that appropriate goals and objectives are met; using resources efficiently, economically, effectively, and equitably, and safeguarding resources; following laws and regulations; and ensuring that management and financial information is reliable and properly reported. Internal controls over financial reporting should allow management to prevent or detect and correct misstatements on a timely basis.

Condition While the Borough has in place policies requiring employees have signed and approved pay rates on file, the results of our payroll testing identified 4 payroll disbursements out of a sample of 40 that were not supported by signed and approved pay rates on file. Additionally, the results of our payroll testing identified 1 instance out of 40 where an employee's timesheet was not reviewed and approved, as required by Borough policy.

Cause Internal controls were not in place throughout the entire fiscal year to ensure that all employees have approved pay rates included in their personnel file and that all timesheets are reviewed and approved prior to payment.

Effect or potential effect Lack of properly documented pay rates and properly reviewed timesheets increases the likelihood that payroll expense is misstated.

Recommendation Management should review all personnel files and verify all employees have a current signed and approved pay rate included in their file. We also recommend management adopt a policy requiring all payroll disbursements be reviewed by 2 individuals prior to approval for pay to ensure a signed and approved timesheet is on file supporting the disbursement.

Views of responsible officials Management concurs with the finding and will adhere to the corrective action plan included in this report.

Aleutians East Borough, Alaska

Schedule of Findings and Questioned Costs, continued Year Ended June 30, 2020

<u>Finding 2020-003</u>	Segregation of Duties - Internal Control over Financial Reporting - Significant Deficiency
<i>Criteria</i>	<i>Government Auditing Standards</i> states that management is responsible for establishing and maintaining effective internal control to help ensure that appropriate goals and objectives are met; using resources efficiently, economically, effectively, and equitably, and safeguarding resources; following laws and regulations; and ensuring that management and financial information is reliable and properly reported. Internal controls over financial reporting should allow management to prevent or detect and correct misstatements on a timely basis.
<i>Condition</i>	We noted that while management began taking steps in 2020 to improve segregation of duties between initiation and review/approval of cash disbursements prior to posting, there were still instances in which cash disbursements were processed and recorded to the general ledger without proper segregation of duties between initiation and review/approval prior to posting. Cash disbursements testing identified 35 instances out of 60 tested in which cash disbursements were not reviewed and approved prior to posting. Additionally, we noted that while management took steps to improve segregation of duties over bank reconciliations, recording of transactions within the general ledger and initiating and approving electronic payments, there are still instances of improper segregation of duties (or lack thereof) between initiation and review/approval.
<i>Cause</i>	Internal controls were not in place throughout the entire fiscal year to ensure that all transactions were reviewed and approved by an individual who did not initiate the transaction.
<i>Effect or potential effect</i>	Lack of proper internal controls related to cash disbursements and segregation of duties increases the risk that inappropriate or inaccurate transactions will be recorded to the general ledger.
<i>Recommendation</i>	Management should establish policies requiring all transactions to be reviewed and approved by a second individual who is knowledgeable of the transaction prior to disbursement, and that documentation of this review be retained.
<i>Views of responsible officials</i>	Management concurs with the finding and will adhere to the corrective action plan included in this report.

Aleutians East Borough, Alaska

Schedule of Findings and Questioned Costs, continued Year Ended June 30, 2020

Finding 2020-004 **Journal Entry Review - Internal Control over Financial Reporting - Significant Deficiency**

<i>Criteria</i>	<i>Government Auditing Standards</i> states that management is responsible for establishing and maintaining effective internal control to help ensure that appropriate goals and objectives are met; using resources efficiently, economically, effectively, and equitably, and safeguarding resources; following laws and regulations; and ensuring that management and financial information is reliable and properly reported. Internal controls over financial reporting should allow management to prevent or detect and correct misstatements on a timely basis.
<i>Condition</i>	We noted that the finance director was able to create and post journal entries to the general ledger without separate review and approval.
<i>Cause</i>	Internal controls were not established to ensure that all journal entries are reviewed and approved by an individual who did not prepare the entry and who is knowledgeable of the facts and circumstances related to the entry.
<i>Effect or potential effect</i>	Lack of proper internal controls related to journal entries increases the risk that inappropriate or inaccurate transactions will be recorded to the general ledger.
<i>Recommendation</i>	Management should adopt policies and procedures related to the journal entry review and approval process to ensure that a separate individual review all journal entries in a timely manner.
<i>Views of responsible officials</i>	Management concurs with the finding and will adhere to the corrective action plan included in this report.

Aleutians East Borough, Alaska

Schedule of Findings and Questioned Costs, continued Year Ended June 30, 2020

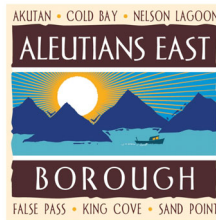
Section III - Federal Award Findings and Questioned Costs

<u>Finding 2020-005</u>	Activities Allowed and Unallowed, Allowable Costs - Internal Control over Compliance - Significant Deficiency
<i>Agency</i>	Department of the Interior
<i>CFDA</i>	15.226
<i>Program</i>	Payments in Lieu of Taxes
<i>Award Year</i>	FY 2020
<i>Criteria</i>	Management is responsible to provide reasonable assurance that the costs paid for by federal funds are allowable and in accordance with the types of activities allowed per the compliance supplement.
<i>Condition</i>	While the Borough has in place policies requiring employees have signed and approved pay rates on file, the results of our payroll testing identified 4 payroll disbursements out of a sample of 40 that were not supported by signed and approved pay rates on file. Additionally, the results of our payroll testing identified 1 instance out of 40 where an employee's timesheet was not reviewed and approved, as required by Borough policy.
<i>Cause</i>	Internal controls were not in place throughout the entire fiscal year to ensure that all employees have approved pay rates included in their personnel file and that all timesheets are reviewed and approved prior to payment.
<i>Effect or potential effect</i>	Federal funds could be expended for unallowed activities and unallowed costs.
<i>Questioned costs</i>	None.
<i>Context</i>	We noted payroll expenditures recorded in the general ledger that were not supported by signed and approved payrates on file as well as reviewed and approved timesheets. However, all costs tested were found to be allowable in accordance with program requirements.
<i>Identification as a repeat finding</i>	Yes, see prior year finding number 2019-004.
<i>Recommendation</i>	Management should review all personnel files and verify all employees have a current signed and approved pay rate included in their file. We also recommend management adopt a policy requiring all payroll disbursements be reviewed by 2 individuals prior to approval for pay to ensure a signed and approved timesheet is on file supporting the disbursement.
<i>Views of responsible officials</i>	Management concurs with the finding and will adhere to the corrective action plan included in this report.

Aleutians East Borough, Alaska

Schedule of Findings and Questioned Costs, continued Year Ended June 30, 2020

<u>Finding 2020-006</u>	Activities Allowed and Unallowed, Allowable Costs - Internal Control over Compliance - Significant Deficiency
<i>Agency</i> <i>CFDA</i> <i>Program</i> <i>Award Year</i>	Department of the Interior 15.226 Payments in Lieu of Taxes FY 2020
<i>Criteria</i>	Management is responsible to provide reasonable assurance that the costs paid for by federal funds are allowable and in accordance with the types of activities allowed per the compliance supplement.
<i>Condition</i>	We noted that while management began taking steps in 2020 to improve segregation of duties between initiation and review/approval of cash disbursements prior to posting, there were still instances in which cash disbursements were processed and recorded to the general ledger without proper segregation of duties between initiation and review/approval prior to posting. Cash disbursements testing identified 35 instances out of 60 tested in which cash disbursements were not reviewed and approved prior to posting.
<i>Cause</i>	Internal controls were not in place throughout the entire fiscal year to ensure that all transactions were reviewed and approved by an individual who did not initiate the transaction.
<i>Effect or potential effect</i>	Federal funds could be expended for unallowed activities and unallowed costs.
<i>Questioned costs</i>	None.
<i>Context</i>	We noted nonpayroll expenditures recorded in the general ledger that were not supported by documentation indicating review and approval. However, all costs tested were found to be allowable in accordance with program requirements.
<i>Identification as a repeat finding</i>	Yes, see prior year finding number 2019-005.
<i>Recommendation</i>	Management should establish policies requiring all cash disbursements to be reviewed and approved by a second individual who is knowledgeable of the transaction prior to disbursement, and that documentation of this review be retained.
<i>Views of responsible officials</i>	Management concurs with the finding and will adhere to the corrective action plan included in this report.



Aleutians East Borough, Alaska

Summary Schedule of Prior Audit Findings Year Ended June 30, 2020

Finding 2019-001 **Approved Pay Rates - Internal Control over Financial Reporting - Significant Deficiency**

Finding Internal controls were not in place throughout the entire fiscal year to ensure that all employees have approved pay rates included in the personnel files.

Status Aleutians East Borough instituted a policy requiring all employees to have a personnel action form stating the current rate of pay included in their personnel files. This form is required to be updated annually or whenever there is a change in the employee's rate of pay. The Borough requires the employee and the Borough Administrator to sign the personnel action form annually as well as any time the form is updated (the Mayor signs the Borough Administrator's personnel action form). This policy was enacted in March 2019 and has been in effect since then. We consider this finding partially resolved. See finding 2020-002 in the current year.

Finding 2019-002 **Segregation of Duties - Internal Control over Financial Reporting - Significant Deficiency**

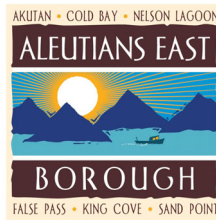
Finding Internal controls were not in place throughout the entire fiscal year to ensure that all transactions were reviewed and approved by an individual who did not initiate the transaction.

Status Aleutians East Borough is in the process of updating their system of internal controls to include procedures that ensure separate individuals review and approve expenses before entering them. We consider this finding unresolved. See finding 2020-003 in the current year.

Finding 2019-003 **Journal Entry Review - Internal Control over Financial Reporting - Significant Deficiency**

Finding Internal controls were not established to ensure that all journal entries are reviewed and approved by an individual who did not prepare the entry and who is knowledgeable of the facts and circumstances related to the entry.

Status Aleutians East Borough has hired a full-charge bookkeeper to assist with review of journal entries prepared by management. Due to travel restrictions caused by the COVID-19 public health emergency, the bookkeeper was unable to travel onsite and complete such review. We anticipate review to begin in the 4th quarter of FY 2021. We consider this finding partially resolved. See finding 2020-004 in the current year.



Aleutians East Borough, Alaska

Summary Schedule of Prior Audit Findings, continued Year Ended June 30, 2020

Finding 2019-004 **Activities Allowed and Unallowed, Allowable Costs - Internal Control over Compliance - Significant Deficiency**

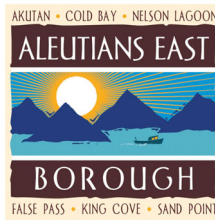
Finding Internal controls were not in place throughout the entire fiscal year to ensure that all employees have approved pay rates included in the personnel files.

Status Aleutians East Borough instituted a policy requiring all employees to have a personnel action form stating the current rate of pay included in their personnel files. This form is required to be updated annually or whenever there is a change in the employee's rate of pay. The Borough requires the employee and the Borough Administrator to sign the personnel action form annually as well as any time the form is updated (the Mayor signs the Borough Administrator's personnel action form). This policy was enacted in March 2019 and has been in effect since then. We consider this finding partially resolved. See finding 2020-005 in the current year.

Finding 2019-005 **Activities Allowed and Unallowed, Allowable Costs - Internal Control over Compliance - Significant Deficiency**

Finding Internal controls were not in place throughout the entire fiscal year to ensure that all transactions were reviewed and approved by an individual who did not initiate the transaction.

Status Aleutians East Borough is in the process of updating their system of internal controls to include procedures that ensure separate individuals review and approve expenses before entering them. We consider this finding unresolved. See finding 2020-006 in the current year.



Aleutians East Borough, Alaska

Summary Schedule of Prior Audit Findings, continued Year Ended June 30, 2020

Finding 2019-006

Types of Services Allowed and Unallowed - Internal Control over Compliance - Significant Deficiency

Finding

Internal controls were not in place throughout the entire fiscal year to ensure that all transactions were reviewed and approved by an individual who did not initiate the transaction.

Status

Aleutians East Borough is in the process of updating their system of internal controls to include procedures that ensure separate individuals review and approve expenses before entering them. We consider this finding unresolved. See finding 2020-006 in the current year.

Finding 2019-007

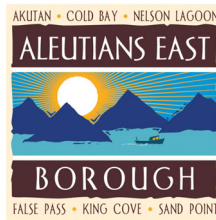
Types of Services Allowed and Unallowed - Internal Control over Compliance - Significant Deficiency

Finding

Internal controls were not in place throughout the entire fiscal year to ensure that all employees have approved pay rates included in the personnel files.

Status

Aleutians East Borough instituted a policy requiring all employees to have a personnel action form stating the current rate of pay included in their personnel files. This form is required to be updated annually or whenever there is a change in the employee's rate of pay. The Borough requires the employee and the Borough Administrator to sign the personnel action form annually as well as any time the form is updated (the Mayor signs the Borough Administrator's personnel action form). This policy was enacted in March 2019 and has been in effect since then. We consider this finding partially resolved. See finding 2020-005 in the current year.



Aleutians East Borough, Alaska

Corrective Action Plan Year Ended June 30, 2020

Name of Contact Person Anne Bailey, Borough Administrator
 abailey@aeboro.org
 907-274-7580

Financial Statement Findings Required to be Reported in Accordance with Government Auditing Standards
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Finding 2020-001 General Ledger Reconciliation and External Financial Reporting - Material Weakness in Internal Control

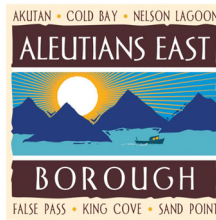
Corrective Action Plan The Aleutians East Borough has hired a full-charge bookkeeper to assist management with year-end reconciliations, closing entries, and audit preparation. The bookkeeper has sufficient skills, knowledge and experience to assist management in ensuring that all accounts are properly reconciled, and all necessary year-end adjusting entries are posted timely prior to commencement of the financial statement audit.

Expected Completion Date June 30, 2021

Finding 2020-002 Approved Pay Rates and Timesheets - Internal Control over Financial Reporting - Significant Deficiency

Corrective Action Plan Management has begun reviewing all personnel files to verify all employees have a current signed and approved pay rate on file. For employees identified without a rate on file, a signed and approved pay rate will be added. Management has also instituted a policy requiring all newly-hired employees have their pay rate formally documented and added to their personnel file during onboarding. Management has also instituted a policy requiring timesheets be signed off by a supervisor prior to approval for pay.

Expected Completion Date June 30, 2021



Aleutians East Borough, Alaska

Corrective Action Plan, continued Year Ended June 30, 2020

Finding 2020-003 Segregation of Duties - Internal Control over Financial Reporting - Significant Deficiency

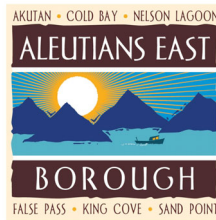
Corrective Action Plan Management has established a policy requiring all cash disbursements to be reviewed and approved by a second individual who is knowledgeable of the transaction prior to disbursement. If review is not possible prior to needing to make the disbursement, review is to happen as soon as possible afterwards. For transactions prepared and posted by the finance director, the full-charge bookkeeper will assist with reviewing the transaction.

Expected Completion Date June 30, 2021

Finding 2020-004 Journal Entry Review - Internal Control over Financial Reporting - Significant Deficiency

Corrective Action Plan The Aleutians East Borough has hired a full-charge bookkeeper to assist management with review and approval of journal entries. The bookkeeper will review all entries posted by the finance director on a monthly basis.

Expected Completion Date June 30, 2021



Aleutians East Borough, Alaska

Corrective Action Plan, continued Year Ended June 30, 2020

Federal Award Findings

Finding 2020-005 Activities Allowed and Unallowed, Allowable Costs - Internal Control over Compliance - Significant Deficiency

Corrective Action Plan Management has begun reviewing all personnel files to verify all employees have a current signed and approved pay rate on file. For employees identified without a rate on file, a signed and approved pay rate will be added. Management has also instituted a policy requiring all newly-hired employees have their pay rate formally documented and added to their personnel file during onboarding. Management has also instituted a policy requiring timesheets be signed off by a supervisor prior to approval for pay.

Expected Completion Date June 30, 2021

Finding 2020-006 Activities Allowed and Unallowed, Allowable Costs - Internal Control over Compliance - Significant Deficiency

Corrective Action Plan Management has established a policy requiring all cash disbursements to be reviewed and approved by a second individual who is knowledgeable of the transaction prior to disbursement. If review is not possible prior to needing to make the disbursement, review is to happen as soon as possible afterwards. For transactions prepared and posted by the finance director, the full-charge bookkeeper will assist with reviewing the transaction.

Expected Completion Date June 30, 2021